

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

### Methodological note nr.2 – Current Account

April 2015

#### 1. Introduction

According to [Statement](#) and [Methodological Note nr.1](#), both released on November 2014, the Central Bank of Brazil (CBB) started releasing external sector statistics of the Brazilian balance of payments (BOP) and International Investment Position (IIP) according to the Sixth Edition of the International Monetary Fund (IMF)'s<sup>1</sup> Balance of Payments and International Investment Position Manual (BPM6).

This methodological note deals with the conceptual changes of the new standard referring to the current account, emphasizing the most relevant issues for Brazil. Implementation of BPM6 recommendations in the country begun in April 2015, and will be further improved as information sources are enhanced and/or built. The following sections present the key changes consequent upon the adoption of the BPM6 on the major headings of the current account: trade balance, services, primary income and secondary income.

#### 2. Trade balance

In BPM6, goods are physical, produced items over which ownership rights can be established and whose economic ownership can be passed from one institutional unit to another by engaging in transactions (paragraph 10.7).

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

According to the previous standard (BPM5<sup>2</sup>), BOP statistics of the balance on trade in goods relied upon the Ministry of Development, Industry and Trade (MDIC) as the only source. Information was elaborated on the basis of customs records of the Foreign Trade System (Siscomex) and was extremely timely, complying with the methodological guidelines of the International Merchandise Trade Statistics (IMTS), published by the United Nations Organization (UN)<sup>3</sup>.

BPM6, however, explicitly recommends that customs statistics be adjusted to BOP requirements, according to paragraph 10.14:

*“10.14 International merchandise trade statistics (IMTS) are usually the main data source for general merchandise in the goods and services account. The international standards for merchandise trade data are set out in United Nations IMTS: Concepts and Definitions. These standards are closely linked to those in this Manual. In practice, the data used as sources for general merchandise include customs data, international transactions reporting systems, other administrative data (including value-added tax systems), surveys of traders, or combinations. **Adjustments to source data may be needed to account for coverage, timing, valuation, and classification that do not meet balance of payments guidelines.**” (Emphasis added).*

While paragraph 14 of the IMTS recommends the record of all goods “which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory”, the BPM6, in paragraph 10.13, defines exports and imports on the basis of ownership change between a resident and a nonresident:

*“10.13 General merchandise on a balance of payments basis covers **goods whose economic ownership is changed between a resident and a nonresident** (...)” (Emphasis added)*

Even though the BPM6 definition does not represent an innovative approach to BPM5, it should be mentioned the especial emphasis put on the utilization of the BOP concept in the balance on trade in goods.

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<sup>2</sup> BPM5 is available at IMF website: <http://www.imf.org/external/pubs/cat/longres.cfm?sk=157.0>.

<sup>3</sup> United Nations, International Merchandise Trade Statistics: Concepts and Definitions, 1998, available at UN website: [http://unstats.un.org/unsd/publication/SeriesM/SeriesM\\_52rev2E.pdf](http://unstats.un.org/unsd/publication/SeriesM/SeriesM_52rev2E.pdf).

In this context, trade balance in goods statistics under BPM6 are compiled by utilizing data released by MDIC, which continues to be the major source of information, together with complementary sources (exchange system, information furnished directly by importing and exporting enterprises, the Brazilian Federal Revenue Board, among others), with the aim of complying with the new methodology requirements. The key changes to be incorporated are described below.

**Electricity imports with no exchange coverage:** BOP imports will record the totality of electricity acquisitions from nonresidents, including those in which there is no exchange coverage or effective delivery of financial resources, partially or in full. BPM6 explicitly defines electricity as a good, and recommends that it be included in the exports and imports accounts, according to paragraph 10.7, item b:

*“10.17 Because there is a change of ownership of goods between a resident and a nonresident, the following cases are included in the balance of payments definition of general merchandise:*  
*(a) (...)*  
*(b) **Electricity**, gas, and water. However, charges invoiced separately for the transmission, transport, or distribution of these products are included in services under transport and other business services — see paragraphs 10.74 and 10.159. (...)*”

**Fictitious exports:** ownership transfer to a nonresident, when a good is delivered inside the national territory, is already included as exports of goods in the case of merchandises subject to the Special Customs Regime of Export and Import of Goods channeled to the Exploration and Production of Oil and Natural Gas (Repetro). The BPM6 recommendation, as an international standard, is that statistics include any merchandise under these conditions, even though not supported by a specific fiscal regime.

**Fictitious imports:** occurs when Brazilian residents acquire the ownership of goods delivered outside the national territory. The acquisition of fuels abroad by Brazilian transportation companies, such as aircrafts or ships, is a typical example of this modality of transaction that from now on will be included in the BOP statistics.

**Goods under merchanting:** operation in which a Brazilian resident purchases a good in another country with the subsequent resale of the same good in another country. The good, therefore, does not enter the national territory. BPM5 recommends that the difference between purchase and resale prices be registered as a service. BPM6 indicates that the purchase of the good should be registered as an export with a negative sign, while the sale be registered as an export with a positive sign (paragraph 10.41).

**Goods for processing:** BPM6 recommends the exclusion of exports and imports of goods that cross the borders but do not involve ownership change. In some situations, the owner sends the good to another country, in which a resident company renders some kind of service for assembly or manufacturing, thus modifying the good, which is then returned to the country of origin. The company rendering the service, however, does not acquire the ownership of the good in any moment. The value of the service aggregated to the good is recorded in a new service account, entitled “Manufacturing services”. The good is not recorded in BOP statistics under the modality of export or import.

### **3. Services**

With regard to the Services account under BPM6, the most relevant changes for the compilation of the Brazilian BOP are listed below:

**Manufacturing services:** according to the trade balance description in the previous section, they refer to services rendered to goods when the company rendering the service resides in a different country from the owner.

**Insurance:** insurance premiums are distributed between the secondary income account and insurance services. At the same time, the remittance and receipt of inflows related to insurance losses are recorded in the secondary income account.

**Transportation:** changes in this account of the Brazilian BOP will depend on the improvement of information sources. The account transportation relies upon data from exchange contracts and estimates for the coverage of operations

settled abroad. The parameters of these estimates will be updated according to the evolution of the market structure of companies rendering these services in the country, including nonresident companies.

**Research and development:** the negotiation of trademarks, copyrights and industrial procedures, developed through research activities, are recorded in this new service account. Under BPM5, they were classified as nonproduced nonfinancial assets and recorded in the capital account. Under BPM6, these transactions will be compiled in the current account.

**Telecommunications, computing and information services:** these three categories of services will be presented in a single group. Up to the BPM5, telecommunications services were presented as a separate group.

**Intellectual property services:** change of nomenclature, replacing the account “Royalties and license fees” of the BPM5.

**Financial Services Indirectly Measured (FISIM):** According to BPM6, in compliance with the methodology of the National Accounts, payments and receipts of interests include, in addition to the capital remuneration, the charge of an implicit financial service. In practical terms, part of the amount classified in the interest account under BPM5 will be reclassified as a service account. Thus, a re-composition between income and service accounts would occur, does not impacting the current account result. The sources for the compilation of this new information are still under elaboration.

#### **4. Primary income**

Statistical improvements will allow introducing relevant changes in the accounts of interests and earnings. The new statistics reflect the demand of nonresident investors by assets located in the Brazilian economy denominated in Brazilian currency (BRL), both under the modality of debt securities traded on the domestic market and equity participation in companies resident in Brazil.

**Interests:** currently, on the basis of data collected from exchange contracts, the Brazilian BOP compiles the payments of interest coupons on securities traded on the domestic market in BRL to nonresident investors solely when resources are effectively sent abroad.

With the adoption of the BPM6, the payment of interest coupons to nonresident investors, carried out on the domestic market in BRL, will be recorded as interest expenditure. The source of data for this item is the Special System for Settlement and Custody (Selic). It should be emphasized that this transaction does not impact the exchange market.

In conceptual terms, the methodological standard defines BOP transactions as the flows between residents and nonresidents, regardless of the market and currency in which transactions occur.

International methodology also defines that BOP records have to comply with the double-entry bookkeeping system, i.e., that each transaction leads to at least two corresponding entries (referred to as a credit entry and a debit entry). In the case of the payment of interest coupons to nonresident investors, carried out on the domestic market in BRL, the corresponding entry of the expenditure entry is the reinvestment of resources, i.e., the increase of net inflows of debt securities traded on the domestic market. Therefore, the BOP financing occurs automatically, since the interest expenditure, recorded in the income account, is matched by a net inflow of the same value in the financial account, specifically under portfolio investment – liabilities, debt securities traded on the domestic market.

In 2014, more than 90% of all interest payments settled on the domestic market in BRL to nonresident investors, as coupon on public debt securities, were reinvested in the country and, thus, exerted no impact on the exchange market.

In the less common cases where the nonresident investor opts to repatriate the interest proceeds, the BOP corresponding entry will still be a reduction of assets in foreign currency held by the bank responsible for this transaction.

With the aim of maintaining consistency between flows and stocks, the source of information to the IIP on the stock of debt securities traded on the domestic market held by nonresident investors will be the Selic. Statistics on the stock of debentures issued by the private sector and acquired by nonresidents will be based on the Stock Exchange Commission (CVM).

**Earnings:** total net earnings of a direct investment enterprise may be divided into distributed earnings and reinvested earnings, and both categories have to be recorded in the BOP. The revenue (expenditure) of received (remitted) earnings corresponds to the increase (reduction) of assets in foreign currency held by the banks responsible for the exchange operation. As for reinvested earnings, they reflect the headquarters' decision to enlarge investment in the country of the subsidiary's residence, and, therefore, exert no impact on the exchange market, being corresponded by the enlargement of direct investment under the modality of equity participation.

In Brazil, the compilation of the reinvested earnings account was interrupted in 1999 due to limited coverage of information sources. The Brazilian BOP, therefore, in the period from 1999 to 2014, registered only interests effectively remitted to headquarters abroad or received by headquarters in the country, calculated on the basis of exchange contracts.

With the adoption of BPM6, the compilation of the account reinvest earnings will be resumed on the basis of information furnished by the surveys Brazilian Capital Abroad (CBE) and Census of Foreign Capitals in Brazil (Census).

Reinvested earnings are compiled for direct investment of Brazilian residents abroad, and for direct investment of nonresidents in companies in Brazil. The impact on the current account results will depend on the magnitude of both effects, since reinvested earnings by Brazilians correspond to revenues, while reinvested earnings by nonresidents are related to expenditures.

Reinvested earnings are also discussed in the Methodological Note nr.3 dealing with Direct Investment.

## **5. Secondary income**

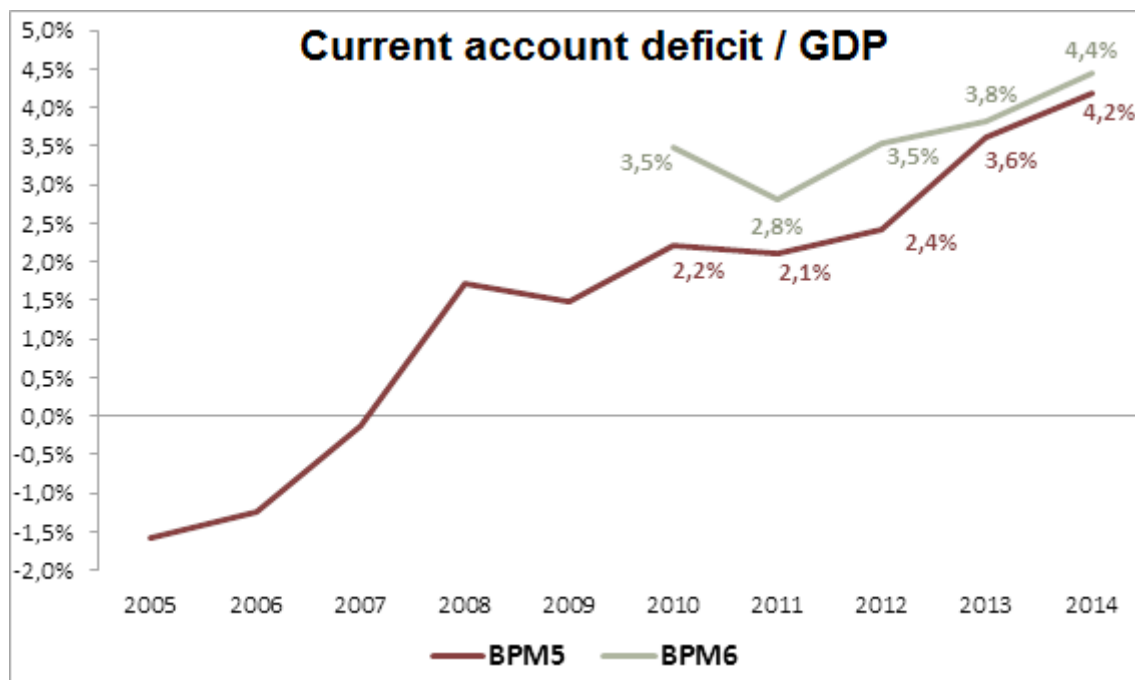
It refers to the previous account Unilateral Transfers. The change of nomenclature aims to ensure consistency with the structure of national accounts, one of the goals of the new BPM6 methodology.

The main change refers to the introduction of the concept of personal transfers. Under BPM5, in the workers' remittances account, the generation of resources remitted between households was associated with labor. In BPM6, the sole condition is that both remittent and recipient of resources be physical persons, regardless of the financial resources origin, i.e., BPM6 enlarges the scope of this heading. This methodological change mostly reflects the difficulty faced by countries to identify whether remitted income was immediately generated by labor. In the Brazilian BOP, the impact of this new guideline will be of minor importance.

## **6. Preliminary results**

The following graph compares the current account figures previously published according to available information under the BPM5 methodology with the corresponding new BPM6 series, both as a percentage of GDP. It should be noted that, in March 2015, the GDP series were also revised by the Brazilian Institute of Geography and Statistics (IBGE) with the adoption of the new methodological Standard for National Accounts (SNA 2008). Current account statistics compiled according to BPM6 and BPM5 are shown as percentage of revised and not revised GDP, in the order.





The BOP of 2014 has been released in the full format, while the current account figures for 2010, 2011, 2012 and 2013, above, refer to preliminary estimates. These results have been calculated by taking into account key changes in concepts and information sources, as described above. The complete BOP series should be released up to February 2016.