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Methodological Notes on the Balance of Payments

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Statistical conventions:

- ... Data unknown.
 - Null data or an indication that the corresponding item does not exist.
- 0** ou **0,0** figure smaller than half the value of the last digit to the right.
* preliminary data.

An hyphen (-) between years (1970-1975) indicates the total of years, including the first and the last. A slash (/) between years indicates the yearly average of such years, including the first and the last, or harvest-year or agreement-year, according to the text.

Any discrepancy between data and totals or percentage variations are due to rounding.

The sources for tables and graphs prepared by the Banco Central itself are not mentioned.

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Foreword

The institutionalization of the Banco Central do Brasil Technical Notes, conducted by the Department of Economics, promotes the dissemination of works featuring economic content, attracting both theoretical and methodological interest, giving a view of the short-term developments of the economy and reflecting the work of the Bank's employees in all areas of action. Besides, other works, though foreign to the Central Bank, may be included in this series provided the Bank has afforded institutional support to their preparation. The first note of this series, "Methodological Notes on the Balance of Payments", identifies the changes introduced to both the criteria for classifying transactions and the nomenclature of balance of payments accounts, as published from January 2001 onwards in compliance with the methodology contained in the fifth edition of the International Monetary Fund (IMF) Balance of Payments Manual.

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Methodological Notes on the Balance of Payments

1. Introduction

This note has three sections: Introduction; Section I, where the changes to the new format of the balance of payments are shown in detail; and Section II, identifying the primary sources used in the compilation of the balance of payments.

Beginning on January 2001, the Central Bank came to disseminate the balance of payments according to the methodology contained in the fifth edition of the Balance of Payments Manual of the International Monetary Fund (BPM5)¹, published in 1993. That edition sets the international rules for compiling information of foreign accounts in an integrated form, including the flows (Balance of Payment) and stocks of financial assets and liabilities (International Investment Position). The conceptual framework used in the BPM5 is strictly related to the National Account System of the United Nations (UN).

The balance of payments under the BPM5 has the same coverage of its previous version, contemplating the same debit and credit entries. The differences reside solely in transaction classification criteria and account nomenclature.

The most significant changes introduced in this new format of the balance of payments are:

- a) introduction, in the current account, of a clear distinction between goods, services, income and current transfers, with emphasis to a greater degree of details in the classification of services;
- b) structuring the “income account” in order to evidence revenues and expenses generated in each mode of foreign assets and liabilities contained in the financial account;
- c) introduction of a “capital account” recording unrequited transfers of wealth of migrants and acquisition/disposal of non-financial non-produced goods, such as assignment of trade marks and patents;
- d) introduction of a “financial account” replacing the previous capital account, recording transactions related to the building of foreign assets and liabilities, such as direct investment, investments in portfolio and derivatives and other investments. The financial account was, therefore, purposely structured to evidence asset and liability transactions, classes of financial market instruments and transaction terms;
- e) inclusion in the item direct investments of intercompany loans (loans made between corporations of a same economic group) of any term, conducted either as direct loans or placement of securities;

1/ Balance of Payments Manual, 5th ed. – Washington, D.C., International Monetary Fund, 1993.

- f) reclassification of all portfolio instruments, including bonds, notes and commercial papers, to the portfolio investments account;
- g) introduction of a specific group to record operations with financial derivatives, previously recorded in the “services” account and in short-term capitals.

2. Section I – Introducing the Balance of Payments

• Current account

The current account was redefined with the exclusion of some transactions that came to integrate the new capital and financial accounts. There was a reclassification of operations with derivatives and capital gain from investments, that came to be recorded in the financial account, and a reallocation of unrequited transfers related to “assets”, to the capital account.

• Services

Services related to transportation, international travels, insurance and government maintain their classification criteria. New sub-items were included in the services account to evidence transactions with financial services, data processing and information, royalties and licenses, and leasing of equipment, previously under the account “miscellaneous services”.

The introduction of financial services, comprising banking services such as brokerage, commission, fees on guarantees and sureties rendered, commissions and other ancillary charges on foreign debt, represents a redefinition of the concept of interests. In fact, certain amounts currently recorded in the “financial services” account were previously classified as interests (IMF [1993], BPM5, § 258)².

• Income

This account records compensation for salaried work, comprising wages and salaries (IMF [1993], BPM5, § 269-72) previously allocated to miscellaneous services, and investment income, corresponding to remuneration of the investment modes detailed in the financial account. This way, income from direct investment includes profits and dividends related to direct investment capital in an enterprise and interests related to intercompany loans corresponding to direct loans and securities of any term. It does not include capital gains, classified as direct investment in the financial account (IMF[1993], BPM5, §276-79 and § 285)³.

Income of portfolio investments include profits, dividends and bonuses related to investments in stocks and interests corresponding to investments in debt securities issued either domestically (public domestic debt securities, debentures and other private securities) or abroad (bonds, notes and commercial papers) of any term. It does not include interests related to placement of papers between associated corporations, which are recorded as income from direct investment (IMF [1993], BPM5, § 280).

2/ "Financial services cover financial intermediation and other ancillary services [...]".

3/ §285 "[...]Direct investment earnings shall not include gains or losses earned or borne as a result of sale of assets or liabilities [...]".

Income from other investments record interests on trade credits, such as suppliers' credits, loans from government agencies, international organizations and banks, and interests of deposits and other assets and liabilities (IMF [1993], BPM5, § 281).

• **Current unrequited transfers**

Corresponds to unrequited transfers made either in kind or currency for current consumption. It does not include transfers related to assets of international migrants, recorded in the capital account (IMF [1993], BPM5 § 291-307).

• **Capital account**

The capital account records unrequited transfers related to migrants' assets and acquisition/disposal of non-financial non-produced goods, such as assignment of patents and trade marks (IMF [1993], BPM5, § 345, § 352, § 358)⁴.

• **Financial account**

The financial account records flows resulting from transactions with financial assets and liabilities between residents and non-residents. The financial account is divided into four groups:

- 1) direct investment;
- 2) investment in portfolio;
- 3) derivatives;
- 4) other investments.

Each group is unfolded in assets and liabilities, so that there is one item to record flows of foreign assets held by residents in Brazil and another to record the issue of liabilities by residents, the creditor of which is a non-resident. Such assets and liabilities are, in turn, unfolded to evidence specific details of each account.

• **Direct investments⁵**

Direct investments are divided into direct investments abroad and direct investments in the country.

4/ § 345 "Capital transfers in kind represent the transfer of ownership of a fixed asset [...]"... § 352 "In the strictest sense, these transfers are not transactions between two parties, but contra-entries to flows of goods and changes in financial items that arise from migration. The transfers so recorded, therefore, represent migrants' net worth" § 358 "[...] acquisition/disposal of intangible non-produced assets – patents, copyrights, trade marks, franchises [...]"

5/ IMF [1993], BPM5, § 91 "[...] The recommendation of this Manual is that market price be used as the basis of valuation for both transactions and stocks. [...]" and § 285 "[...] Income of direct investment shall not include realized gains and losses arising from sales of assets and liabilities [...]" and § 370 "The category of other capital of direct investment – or transactions originated by debts between affiliated corporations – comprises loans, including debt securities and suppliers' credits, between direct investors and branches, affiliated and associated corporations. Such loans appear in assets and liabilities between corporations – accounts payable and accounts receivable – respectively. Loans of direct investors to branches and of branches to direct investors are included. Differently from what occurs in *Other Investments*, there is no distinction between short- and long-term loans." The Brazilian Balance of Payments does not classify suppliers' credits as direct investments. These credits are recorded in other investments.

- **Direct investments abroad**

This account records foreign assets held by residents in Brazil in the form of direct investment. It is divided into two modes:

- **Direct investment capital**

Considers outflow of resources in currency or goods related to acquisition/subscription/increase, in whole or in part, of authorized capital of non-resident corporations. Inflows refer to return of valuables held by residents, derived from disposal, in whole or in part, of the authorized capital of non-resident corporation and capital gains related to the disposal.

- **Intercompany loans**

Intercompany loans comprise loans granted by a parent corporation, with head office, within the country, to its subsidiaries or branches established abroad. It also records the granting of credits by subsidiaries or branches abroad to their parent corporation in Brazil (cross investment). In this case, cross investment is a rectifying account of the direct investment assets, since it is an item of the nature of a liability classified in a group of the nature of an asset. It includes direct investments and placement of security, notwithstanding their term. Loans made between linked banks are not considered intercompany loans.

- **Direct investment in Brazil**

Direct investment in Brazil represents the liability account of the direct investment group. It is similarly divided into two groups:

- **Direct investment capital**

Considers inflows of resources in currency or goods and conversions of foreign obligations into direct foreign investment⁶, including amounts channeled to privatization programs, related to acquisition/subscription/increase, in whole or in part, of authorized capital of resident corporations. The account records outflows related to the disposal, in whole or in part, of resident corporations' authorized capital and to realized capital gains.

- **Intercompany loans**

Intercompany loans comprise loans granted by the head office, a parent corporation abroad, to its subsidiaries or branches established in Brazil. It also records the granting of credits by subsidiaries or branches in the country to their parent corporation abroad (cross investment). In this case, cross investment is a rectifying account of the direct investment liability since it is an account of the nature of an asset classified in a group of the nature of a liability. It considers direct investments and placement of securities, notwithstanding their term. Amortization of intercompany loans in the group direct investment in Brazil includes the principal of loans converted into direct foreign investment. Loans made between linked banks are not considered intercompany loans.

6/ Counterparts of conversion into investments are recorded in correspondent items, amortization, income from direct investment (interests) and services.

• Investments in portfolio

The group investments in portfolio records the flow of assets and liabilities formed by the issue of credit securities commonly traded in secondary markets for securities (IMF [1993], BPM5, § 387 and § 391)⁷.

• Assets

Assets of investments in portfolio refer to Brazilian investments in foreign securities, traded either in Brazil or abroad. Included in such assets are:

- Variable income securities traded abroad: stocks of non-resident corporations acquired in stock exchanges abroad by residents in the country.
- Variable income securities traded in the country: securities of the BDR (Brazilian Depositary Receipts) program, which are receipt representing stocks of non-resident corporations traded in Brazilian stock exchanges.
- Fixed income securities: bonds and notes traded abroad, issued by non-residents. They include the purchase and sale of securities that constituted collaterals in the context of foreign debt renegotiation (Brady Plan).

• Liabilities

Liabilities of investments in portfolio record acquisitions by non-residents of variable income securities (stocks) and fixed income securities (debt securities) of Brazilian issue.

Investments in stocks record direct transactions in Brazilian stock exchanges (traded in the country) under Resolution 2,689⁸, after 1.16.2000. Stocks traded abroad are represented by DR (Depositary Receipts), receipts of stocks of Brazilian corporations traded in foreign stock exchanges.

Foreign investments related to “debt securities” also record separately amounts “traded in the country” and “traded abroad”. Papers “traded in the country” relate to investments under Resolution 2,689 made in short- middle- and long-term debt securities outstanding in the domestic market, issued by the Central Bank and the National Treasury. The item “traded abroad” relates to inflows resulting from placement of bonds, notes and commercial papers in capital markets abroad.

Operations of debt swap are recorded in this mode. The following entries are made in the accounting of such operations: a credit for the face value of the new security issued; a debit for the face value of the redeemed security; and finally, another credit for the appropriation of discounts obtained in the transaction. Any residual value relates to interests

7/ § 387" [...] The major components of investments in portfolio, classified under assets and liabilities, are equity securities and debt securities, traded or tradable in organized and other financial markets. Debt securities are further divided into bonds and notes and money market instruments; and §391 "The instruments of the money market include Treasury bills, commercial papers, bankers' acceptances and negotiable certificates of deposit with original maturity not exceeding one year [...]."

8/ Resolution 2,689, of 1.26.2000, made all instruments and operating modes of the financial and capital markets in the country available to foreign investors. The recording of flows in the balance of payments under different instruments follows the portfolio composition as informed by the trustees of such funds to the Central Bank of Brazil Department of Foreign Capitals and Exchange (Decec).

paid by way of the newly issued securities or values in currency paid to even out the batch value of issued and redeemed securities.

Papers featuring maturities lower than one year are recorded as “short-term securities”. These securities, whenever traded in the country, relate to that part of funds entered under Resolution 2,689 and invested in securities issued by the Central Bank and the National Treasury.

- **Financial derivatives⁹**

This account records financial flows related to the settlement of assets and obligations resulting from swap, options and futures operations and flows related to option premiums. It does not include flows of guarantee margin deposits related to operations in futures exchanges, which are recorded in other short-term assets and liability accounts.

- **Other investments (IMF [1993], BPM5 § 414-15 and § 420-22)¹⁰**

- **Other investments – Assets**

- **Loans**

Includes Brazilian short and long-term loans and credits granted to non-residents, including those related to the Export Financing Program (Proex) and those granted by financial institutions.

- **Currency and deposits**

Relate to changes in deposits maintained abroad as available cash, pledges, judicial deposits and guarantees for loans linked to exports. Include the change of deposits abroad of commercial banks and deposits related to excess purchased positions by resident banks deposited with the Central Bank. Includes, in addition, changes in guarantees and collaterals, in the mode of deposits, made in the context of the foreign debt renegotiation agreement (Brady Plan).

9/ This item is compiled according to a *separata* to the BPM5, namely "Financial Derivatives: A Supplement to the Fifth Edition of the Balance of Payments Manual", published on 5.10.2000 by the International Monetary Fund. Washington, D.C. (ISBN 1-55775-941-3).

10/ **Commercial credits** – "Commercial credits consists of claims and liabilities arising from the direct extension of credits by suppliers and buyers for transactions in goods and services and advance payments for work in progress. Loans to finance trade are not included, as these are classified under loans. [...] Though frequently short-term in nature, commercial credits and advances are subdivided into short and long-term categories."

Loans – "Loans comprise those financial assets created through the direct lending of funds by a creditor (lender) to a direct debtor (borrower) through an arrangement in which the lender receives no security evidencing the transaction or receives a non-negotiable document or instrument. Included are loans to finance trade, other loans and advances (including mortgages), use of IMF credit and loans from the IMF. Financial leases and repurchase agreements are covered under loans. In classifying loans, the structure of maturity – discriminating between short and long-term – is retained."

Currency and deposits – IMF [1993], BPM5 § 420 "Currency consists of notes and coins that are in circulation. [...] For this purpose, one uses the domestic currency – liability – held by non-residents and the foreign currency – asset – held by residents [...]" and § 421 "Deposits include transferable deposits and other deposits [...] Deposits may be denominated in domestic or foreign currency[...]."

Other assets and other liabilities – IMF [1993] BPM5 § 422 "Any other items except trade credits, currency loans and deposits are covered by other assets and liabilities, such as capital subscriptions to international non-monetary organizations and miscellaneous accounts receivable and payable."

- **Other assets**

Comprises the share of Brazil in the capital of international organizations and long-term pledge deposits. The short-term includes deposits of guarantee margins related to operations with derivatives.

- **Other investments – liabilities**

- **Commercial credits**

The long-term item includes changes in liabilities related to the direct granting of credit by foreign exporters to their customers in Brazil (suppliers' credits). The short-term item records advance payments of exports and other commercial credits, including those resulting from lack of coincidence between the times of shipping and payment of goods.

- **Loans**

The account includes direct loans (except intercompany loans), funding to imports in the mode buyers' credit and those loans granted by international organizations and government agencies. These loans are taken separately, as short and long-term, according to the original maturity of obligations.

Includes, besides, loans to the monetary authority, comprising autonomous credits and regularizing operations resulting from agreements to finance the balance of payments.

- **Currency and deposits**

The account relates to cash available resources of non-residents deposited in the country, including balance changes of non-resident accounts opened under Circular 2,677, of 4.10.1996 (CC5 accounts).

- **Other liabilities**

The item refers to pledge and judicial deposits made in the country by non-residents, for a term in excess of one year. The short-term includes changes in debt balances of the Reciprocal Payment and Credit Agreement (CCR) and guarantee margin deposits related to operations in commodities markets in the country.

- **Net errors and omissions**

When making entries to the balance based on different sources of information, one obtains a consistent body of credit and debit entries the net total of which shall, in principle, equal zero. In practice, however, when all actual entries are totalled, the resulting balance will show a net sum different from zero given temporal discrepancies in data sources used. Offsetting entries are thus necessary to balance the accounts. Net errors and omissions compensate for any over or underestimation of the recorded components.

As some errors and omissions produced in the compilation of data do offset each other, the size itself of the residual item is not necessarily an indication of overall accuracy of the statement (IMF [1993], BPM5 § 146-8).

- **Global result of the balance**

Global result of the balance represents changes in the country's international reserves held by the Central Bank, in the concept of international liquidity, less adjustments related to appreciation/depreciation of foreign currencies and gold against the United States Dollar, and gains/losses related to fluctuations in security prices (IMF [1993], BPM5 §424 and § 436)¹¹.

3. Section II – Primary sources of information for Balance of Payments components

I. Current transactions

a) Trade balance

Ministry of Development Industry and Trade (MDIC).

b) Services

b.1. Transportation

National statistics of foreign exchange operations, calculated by the Department of Foreign Capitals and Exchange (Decec); information given directly by sea carriers and by the Department of Merchant Navy of the Ministry of Transport (DMM/MT); and data supplied by Brazilian commercial air carriers and the Department of Civil Aviation (DAC).

b.2. Other items of the service account

National statistics of foreign exchange operations.

c) Income

National statistic of foreign exchange operations, except for income of interests on international reserves, calculated by the Central Bank of Brazil International Reserves Operations Department (Depin) and data on reinvested profits, calculated by Decec.

11/ IMF [1993], BPM5 § 424 "[...] This category consists of assets abroad controlled by the monetary authority [...] including monetary gold, special drawing rights (SDR), reserve positions in the IMF, assets in foreign currency – currency, deposits and securities – and other assets." § 436 "[...] excludes all changes that are not attributable to transactions. Therefore, value changes resulting from price fluctuations, monetization and demonetization of gold and allocation or cancellation of SDRs and counterparts offsetting such changes are not recorded in the balance of payments statements [...]."

d) Current unrequited transfers

National statistics of foreign exchange operations, except transfers of goods, the source of revenues of which is the foreign exchange nature of imports, made available by the Ministry of Finance General Coordination of Information Systems Technology (Cotec) and, for expenses, the foreign exchange nature of exports prepared by the Ministry of Development, Industry and Trade Secretariat of Foreign Trade (Secex/MDIC).

II. Capital account

National statistics of foreign exchange operations.

III. Financial account**a) Direct investment****a.1. Direct investment abroad**

National statistics of foreign exchange operations in the form of goods, the source of which is the foreign exchange nature of exports, prepared by Secex/MDIC.

a.2. Direct investment in Brazil

National statistics of foreign exchange operations, except investments in the form of goods, the source of which is the foreign exchange nature of exports, prepared by the Ministry of Finance (Cotec). Reinvestments, a counterpart of reinvested profits, originate in records made by Decec.

b) Investment in portfolio**b.1. Assets**

National statistics of foreign exchange.

b.2. Liabilities

National statistics of foreign exchange. The recording of funds under Resolution 2,689, of 1.26.2000, on different instruments of the balance of payments follows the foreign investors' portfolio composition informed by the trustees of such funds in Brazil to Decec.

c) Financial derivatives

National statistics of foreign exchange operations.

d) Other investments

d.1. Assets

- **Loans**

National statistics of foreign exchange operations; Proex data, supplied by the National Bank of Economic and Social Development; balance sheets of commercial banks.

- **Currency and deposits**

National statistics of foreign exchange operations; balance sheets of commercial banks.

- **Other assets**

National statistics of foreign exchange operations; balance sheets of commercial banks.

d.2. Liabilities

- **Trade credits**

National statistics of foreign exchange operations; foreign exchange nature of exports (Secex/MDIC) and imports (Cotec).

- **Loans**

National statistics of foreign exchange operations; foreign exchange nature of imports (Cotec); balance sheets of commercial banks; information from Brazilian corporations on short-term foreign credit lines directly taken abroad.

- **Currency and deposits**

National statistics of foreign exchange operations; balance sheets of commercial banks.

- **Other liabilities**

National statistics of foreign exchange operations; balance sheets of the Central Bank (CCR debit balance).

IV. Changes in international reserves

Depin reports.