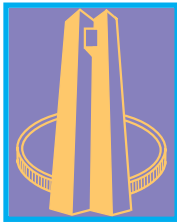


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South African Reserve Bank

A note on the revision of the balance of payments accounting framework

by S.S. Walters

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Introduction

Since the publication of the fourth edition of the Balance of Payments Manual (BOPM4) of the International Monetary Fund (IMF) in 1977, the world economy has experienced substantial changes in the scope and complexity of international transactions. These changes resulted from the liberalisation of financial markets, the widespread abolition of capital controls, innovations in the creation of financial instruments and new approaches to the restructuring of external debt. In addition, international trade in services grew strongly. All these developments necessitated changes in the recording and the classification of such transactions within the structure of the balance of payments accounts. Furthermore, there was a need to integrate and harmonise balance of payments data with the revised System of National Accounts (SNA) and the IMF's statistical systems on money and banking and government finance.

The fifth edition of the IMF's Balance of Payments Manual (BOPM5) issued in September 1993 standardises the concepts, definitions and classifications of international transactions and helps to facilitate the collection, the organisation and comparability of balance of payments and international investment position statistics.

Major changes introduced by BOPM5

The scope and orientation of BOPM5 differ from previous editions in a number of areas. These changes include

- the provision of a conceptual framework to reconcile balance of payments flows (transactions) with stocks of financial assets and liabilities (the international investment position);
- the harmonisation of the balance of payments transaction flows with the rest of the world account in the SNA. Mainly for this reason, the BOPM5 differentiates between current and capital transfers;
- a clear distinction between international transactions in services and transactions in income;
- an expansion of the list of identifiable transactions in services to reflect their growing importance and their contributions to or linkages with other statistical systems; and
- an expansion of the coverage of financial flows and the restructuring of stocks.

Structure of the balance of payments

The structure of the balance of payments as presented in the BOPM5 is in line with the rest of the world account in the national accounts, and consists of the current account, the capital transfer account, the financial account and the international investment position. The

Table 1. The analytical presentation of the South African balance of payments

BOPM4	BOPM5
Current account	Current account
Merchandise exports	Merchandise exports
Net gold exports	Net gold exports
Service receipts	Service receipts
	Income receipts
<i>Less: Merchandise imports</i>	<i>Less: Merchandise imports</i>
<i>Less: Payments for services</i>	<i>Less: Payments for services</i>
	<i>Less: Income payments</i>
Transfers (net receipts+)	Current transfers (net receipts+)
Balance on current account	Balance on current account
	Capital transfer account (net receipts+)
Capital account	Financial account
Long-term capital movements	Direct investment
Public authorities	Liabilities
Public corporations	Assets
Monetary sector	Portfolio investment
Non-monetary private sector	Liabilities
Short-term capital movements	Assets
Public authorities	Other investment
Public corporations	Liabilities
Monetary sector	Assets
Non-monetary private sector	
	Unrecorded transactions
Change in net gold and other foreign reserves	Change in net gold and other foreign reserves
Change in liabilities related to reserves	Change in liabilities related to reserves
SDR allocations and valuation adjustments	SDR allocations and valuation adjustments
Change in gross gold and other foreign reserves	Change in gross gold and other foreign reserves
Memo item: Total capital movements not related to reserves	Memo item: Total capital transfer and financial account transactions including unrecorded transactions

current account includes trade in goods, services, income and current transfers. Income consists of investment income and compensation of employees. The newly created capital transfer account comprises capital transfers that were part of the current account in previous presentations. The new financial account broadly maintains the same coverage of financial transactions as the former capital account, and covers transactions in South African foreign assets and foreign liabilities.

The current account

The definition and coverage of the current account of the balance of payments are revised in the BOPM5. The current account now consists of separate accounts for goods, services, income and current transfers, and it measures transactions related to production, income and expenditure. In previous editions, the current account by definition included all transfers.

Goods account

Transactions in goods consist of most movable goods that changed ownership between South African residents and non-residents. In conformity with the new guidelines, this classification has been expanded to incorporate certain transactions which were previously recorded under services. Separate entries are registered for general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and net gold exports. The expansion of goods transactions by adding goods for processing and repairs on goods means that the criterion of change of ownership has been abandoned in these cases for reasons of harmonisation with the national accounts. Processing implies that goods are temporarily sent abroad for some kind of transformation without any change of ownership. In the case of repairs on goods, only the net fee for repairs is

Table 2. Goods account

BOPM4	BOPM5
Merchandise	Merchandise
Valuation adjustments	Valuation adjustments
Timing adjustments	Timing adjustments
Classification adjustments	Classification adjustments
Adjustments for regional coverage	Adjustments for regional coverage
	Goods for processing
	Repairs on goods
	Goods procured in ports
Net gold exports	Net gold exports

recorded. Goods procured in ports by carriers, i.e. supplies of fuel and provisions to ships and aircraft, are now recorded in the goods account. Despite the fact that the procurement of goods in ports by carriers involves a change of ownership, these transactions were previously registered in the services account as transportation services.

Services account

Owing to the growing importance of detailed and disaggregated data on the international trade in services, the list of standard identified components and sub-components was expanded. The increased emphasis on disaggregated data stems from the perception that the production and trade of services differ from the production and trade of goods. The services account includes the transportation of goods and passengers, travel and other services. The category for other services includes construction services, financial and insurance services, miscellaneous business, professional and technical services, as well as personal, cultural and recreational services and government services.

Income account

Income refers to income earned by South African residents from non-residents and vice versa. The two components of income flows, namely compensation of employees and investment income are identified separately as current account transactions. Compensation of employees includes wages, salaries and other benefits earned by individuals from countries other than those in which they are resident. Investment income comprises income earned from the provision of financial capital and is classified as direct and non-direct (i.e. portfolio and other) income.

Current transfers

Transfers represent offsetting transactions to the provision of resources between residents and non-residents with no quid pro quo (counter-performance) in economic value. Current transfers are considered to have a direct impact on the level of disposable income and hence on the consumption of goods and services. Transactions classified as current transfers are, among other things, gifts in cash or in kind to be used for consumption purposes, social insurance contributions and benefits, and taxes imposed by governments.

The Southern African Customs Union (SACU) Agreement provides for the transfer of funds by South Africa as

administrator of the customs revenue pool to the other member countries. Such payments can be subdivided into a basic payment of revenue collected on imports into the member country, and a further payment to compensate the member for the advantages accruing to South Africa in terms of the SACU Agreement. In order to enhance consistency among member countries of SACU, the additional amount of compensation to member countries in terms of the SACU Agreement is now recorded as a current transfer payment in the South African balance of payments. The amount collected from member countries is still part of the adjustment for regional coverage effected to merchandise export values. Previously, the full payment in terms of the SACU Agreement was treated as part of the coverage adjustment.

Capital transfer account

The newly created capital transfer account consists of two major components – capital transfers and the acquisition or disposal of non-produced, non-financial assets. Capital transfers are offsetting transactions to the transfer of the ownership of fixed assets, transfers of funds associated with the acquisition or disposal of fixed assets (such as a grant by a foreign government earmarked for a housing project in South Africa), debt forgiveness (previously excluded from the balance of payments accounts) and transfers by migrants, i.e. the value of household and personal effects as well as financial claims and liabilities transferred by migrants from former to new economies. Transactions in non-produced, non-financial assets are not identified separately in the presentation of South Africa's balance of payments.

Changes in the financial account

The financial account, which roughly includes all the transactions recorded in the former capital account, comprises all transactions in foreign assets and foreign liabilities as well as transactions involving the creation and liquidation of financial claims associated with changes of ownership in foreign financial assets and liabilities during a specific period. The primary classification is by functional category or type of investment (direct investment, portfolio investment and other investment). For analytical purposes in the balance of payments context, the components of investment are all classified according to the institutional sector classification of the resident creditor or debtor (monetary authorities, public authorities, public corporations, the banking sector and the private non-banking sector).

Table 3. Financial account

BOPM4	BOPM5
Long-term capital movements	Inward/outward investment
Public authorities	Direct investment
Public corporations	Monetary authorities
Monetary sector	Public authorities
Non-monetary private sector	Public corporations
Short-term capital movements	Banking sector
Public authorities	Private non-banking sector
Public corporations	Portfolio investment
Monetary sector	Monetary authorities
Non-monetary private sector	Public authorities
	Public corporations
	Banking sector
	Private non-banking sector
	Other investment
	Monetary authorities
	Public authorities
	Public corporations
	Banking sector
	Private non-banking sector

Functional components of the financial account

As in previous editions of the Manual, direct investment is classified primarily on a directional basis, i.e. non-resident investment in the reporting economy and resident investment abroad. Direct investment includes transactions related to the acquisition of share capital in foreign countries by establishing new businesses, or through mergers and takeovers. The objective must be to gain control of or meaningful say in the management of the enterprises involved. Furthermore it comprises not only the initial equity transaction establishing the relationship between a direct investor and an enterprise, but also all subsequent transactions between affiliated enterprises. Transactions in real estate also form part of direct investment. In the BOPM5 a few minor changes were made to the scope of direct investment. These include

- the lowering of the equity threshold used to determine a direct investment relationship between a direct investor in one country and a direct investment enterprise in another country from the previous 25 per cent to 10 per cent. In the case of South Africa, this change has had only a marginal impact on direct investment flows and the country's international investment position;
- the subdivision, for the first time, of equity and other capital; and
- the exclusion from direct investment of loan capital, other than that representing permanent debt (i.e. loan capital representing a lasting interest) in the case of banks and other financial intermediaries in a direct relationship.

Portfolio investment consists of international equity and debt securities not classified as direct investment. The coverage of portfolio investment has been expanded to reflect the growth in new financial instruments in recent years. In addition to long-term debt and equity securities, money market debt instruments and tradable financial derivatives are included in portfolio investment. Transactions in derivatives are treated as separate (mainly financial) transactions, rather than as integral parts of underlying transactions to which they may be linked as hedges.

Other investment is a residual category which includes all financial transactions not covered under direct investment, portfolio investment or reserve assets (gold and other foreign reserves). In contrast to both direct investment and portfolio investment, the BOPM5 suggests that a long-term and a short-term maturity breakdown be maintained as a third-level basis of classification. Other investment comprises trade credits, loans, currency and deposits and other assets and liabilities. In the case of South Africa, the use of IMF credit facilities by the central government as well as the utilisation of short-term credit facilities by the Reserve Bank is not classified as part of other investment as proposed in the BOPM5. These liabilities are treated for analytical purposes as part of reserve-related liabilities.

Unrecorded transactions

The adoption of the double-entry accounting system for the recording of balance of payments transactions means that in principle, the net sum of all credit and debit entries should equal the change in the country's net gold and other foreign reserves. The net effect of differences in coverage, timing and valuation and also the errors and omissions that occur in compiling all the individual component series are entered as unrecorded transactions.

Change in net gold and other foreign reserves

As in the previous presentation of the balance of payments, the South African Reserve Bank, for analytical purposes, identifies changes in the country's net gold and other foreign reserves separately. The objective is to exclude compensatory borrowing from non-residents in order to obtain a balance which reflects the influence of "pure" balance of payments transactions on the country's gold and other foreign reserves. Changes in the net foreign reserves are determined by subtracting from changes in the gross gold and foreign reserves the changes in short-term liabilities of the Reserve Bank, changes in short-term foreign loans to the central government and valuation adjustments. South Africa's foreign reserves therefore reflect the liquid assets

available to the monetary authorities for financing disequilibria in the balance of payments. Foreign reserves include gold, special drawing rights, the reserve position in the IMF and foreign exchange holdings.

The international investment position

The international investment position measures an economy's stock of external assets and liabilities whereas the financial account measures transactions in these assets and liabilities. Both the financial account and the international investment position are subdivided into direct investment, portfolio investment and other investment. These stock levels or balance sheet totals could be used *inter alia* to determine or check investment income receipts and payments to and from the rest of the world.