

Note on the conversion and revision of South Africa's balance-of-payments statistics

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Background

In order to keep abreast of international best practice in the compilation and dissemination of balance-of-payments statistics, the South African Reserve Bank (the Bank) has aligned South Africa's balance-of-payments statistics with the guidelines provided in the Sixth Edition of the *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF). The revised statistics, including a change in the analytical presentation of the balance of payments, are disseminated in this edition of the *Quarterly Bulletin*.

Consistent with previous balance-of-payments manuals, BPM6 provides guidance to member countries of the IMF on the principles, concepts and methodological practices underlying the compilation of balance-of-payments statistics. By adhering to these guidelines, transactions between residents of different economies are recorded in accordance with internationally agreed standards.

BPM6 largely reflects changes that have occurred in the global economy since the release of BPM5 in 1993. Over the period, globalisation gave rise to a further increase in cross-border activity, ongoing financial innovation and increased financial flows. The basic framework for balance-of-payments data developed in BPM5 was maintained in BPM6. Changes proposed in BPM6 were, however, harmonised with the 2008 *System of National Accounts (2008 SNA)* and various other manuals, thereby enhancing the consistency between major macroeconomic statistical frameworks and data sets.

The revision and reclassification of balance-of-payments statistics will enable data users to compare balance-of-payments statistics internationally. To allow for consistency between balance-of-payments and national accounts statistics, the conversion to BPM6 and the partial implementation of the 2008 SNA were scheduled to coincide with the benchmarking and rebasing of the national accounts statistics at the end of 2014. The revised balance-of-payments statistics as published in this edition of the *Quarterly Bulletin* reflect the impact of the implementation of BPM6, the incorporation of new data sources as well as general revisions that are usually undertaken on an annual basis.

Detail of the revisions: Current account

Revisions related to the conversion from BPM5 to BPM6

- The reclassification of goods for processing. In BPM6 all fees received by economies for the processing of goods that have not changed ownership are to be recorded as service earnings. In BPM5 the inward and outward flows of processed goods were recorded on a gross basis in the trade account, thereby imputing a change of ownership.
- The further disaggregation of trade in services. While 'transportation' and 'travel' will continue to be reported on, the item 'other services' has been disaggregated into several subcategories aligned with BPM6. These subcategories will initially only be disseminated on an annual basis; see page S-84 (Table KB505) and page S-85 (Table KB532) of the *Quarterly Bulletin*.



The disaggregated 'other services' categories are:

- manufacturing services on physical inputs owned by others (*previously known as goods for processing*);
- repairs and maintenance services on movable goods (not included elsewhere);
- telecommunications, computer and information services;
- financial and insurance services;
- charges for the use of intellectual property;
- personal, cultural and recreational services;
- other business and miscellaneous services; including inter alia:
 - legal services;
 - accounting services;
 - advertising and market research services; and
 - architectural, engineering and other technical services.

Data enhancements resulting from the incorporation of additional and/or more reliable data sources

- Trade in merchandise goods has been adjusted for the period 2006 to 2013 to fully reflect the latest available set of bilateral trade data – as released by the South African Revenue Service (SARS) – between South Africa and its neighbouring partner countries in the Southern African Customs Union (SACU), namely Botswana, Lesotho, Namibia and Swaziland. In the December 2013 edition of the *Quarterly Bulletin*, the Bank partially amended bilateral trade statistics as from 2010, thereby substituting previous estimations made by the Bank in the absence of reliable bilateral trade data between South Africa and these neighbouring countries. In addition, the Bank has also adjusted trade statistics to reflect the impact of 'vouchers of correction' submitted to SARS.

A comparison of the levels of the current and the revised nominal values for merchandise exports and imports for the years 2012 and 2013 is shown in Table 1.

- International trade in services

With regard to the trade in services, the 'other services' component has been disaggregated into a number of subcategories by making use of additional micro data sets. As a result, the value for international trade in services was revised. Table 1 displays the newly estimated levels for 'net service payments' in the services, income and current transfer account.

Table 1 Impact of migration to BPM6 and incorporation of general revisions on the current account of the balance of payments

R billions

	BPM5		BPM6 and general revisions	
	2012	2013	2012	2013
Trade account				
Merchandise exports	744	854	754	869
Net gold exports.....	71	64	71	64
Minus: Merchandise imports.....	854	991	857	1 001
Trade balance	-40	-74	-32	-68
Net service, income and current transfer account				
Net service payments	-20	-22	-9	-12
Transportation				
Passenger fares	-15	-18	-15	-18
Other.....	-36	-40	-25	-27
Travel.....	49	56	49	56
Other services	-18	-20	-18	-23
Manufacturing services on physical inputs owned by others	-	-	0	0
Repairs and maintenance services on movable goods n.i.e.....	-	-	0	1
Financial and insurance services	-	-	3	4
Charges for the use of intellectual property	-	-	-15	-18
Telecommunications, computer and information services.....	-	-	-3	-4
Personal, cultural and recreational services	-	-	1	1
Other business and miscellaneous services	-	-	-4	-7
Net income payments.....	-73	-71	-88	-93
Net current transfer payments	-31	-31	-31	-31
Net service, income and current transfer balance	-124	-124	-128	-136
Balance on current account	-165	-197	-162	-204
As percentage of gross domestic product	-5,2	-5,8	-5,0	-5,8

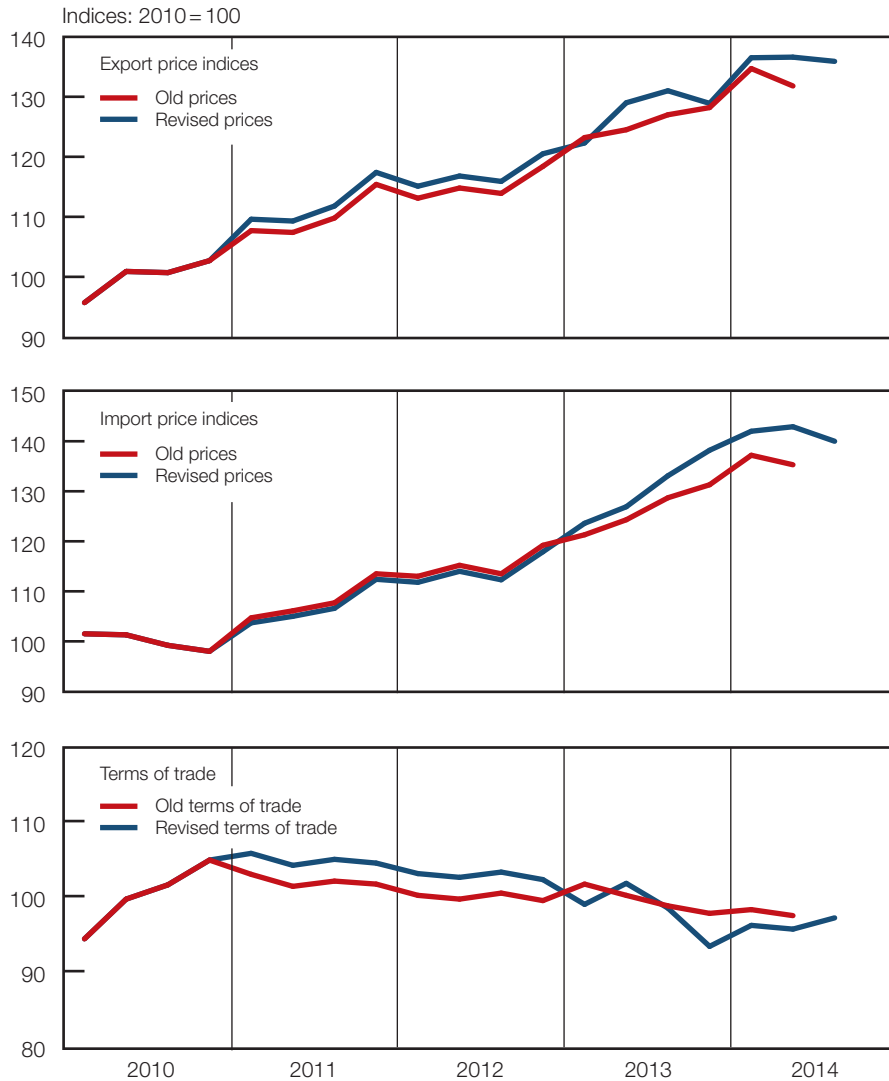
Components may not add up to totals due to rounding

– Price deflators for exports and imports

In February 2013 Statistics South Africa (Stats SA) released unit value indices (UVIs) for merchandise exports and imports from January 2010. In deriving values at constant prices for merchandise exports and imports, the Bank opted to use a combination of UVI information and realised prices of specific commodities and other products, where applicable, to derive suitable price deflators for both balance-of-payments and national-account statistics from the first quarter of 2013, as shown in the graph on the next page. Based on the newly calculated price deflators, South Africa's terms of trade for merchandise, excluding gold, seem to have deteriorated slightly more in the recent past than previously indicated.

– Data for most subcategories of the current account were revised back to 2005.

Impact of changes in merchandise export and import prices



Detail of the revisions: Financial account and international investment position

Changes related to BPM6

The adoption of BPM6 had a minimal impact on the financial account as most changes were confined to reclassifications, the refinement of definitions and layout changes. Financial account data have been revised back to 2011.

- The analytical presentation of the financial account of the balance of payments and the international investment position has been amended to incorporate additional functional categories. The previous three functional categories in the financial account of the balance of payments, namely *direct investment*, *portfolio investment* and *other investment*, were expanded to include two additional functional categories, namely *financial derivatives* and *reserve assets*. Furthermore, changes in liabilities and assets will in future be referred to as 'net incurrence of liabilities' and 'net acquisition of financial assets'. In the interest of consistency, the changes made to the layout of the financial account have also been incorporated in the country's international investment position.

- While the use of a positive and negative (+/-) sign convention used in previous editions of the *Quarterly Bulletin* was maintained, the sign convention with regard to reserve assets has been changed as a result of this category now being part of the financial account. An increase in reserve assets is accordingly indicated by a negative sign and a decrease by a positive sign.
- The allocation of special drawing rights (SDRs) is shown under the *other investment* category: *net incurrence of liabilities*, depicting the unique nature of SDRs. Previously, any allocation of SDRs was deducted from the changes in gross gold and other foreign reserves to derive the change in net international reserves or reserve assets.

Data enhancements resulting from the use of new or additional data sources and other ordinary revisions

- Balance-of-payments transactions related to financial derivatives have been included as an additional functional category in the financial account from the first quarter of 2011. The inclusion of financial derivatives as a functional category in the financial account of the balance of payments has partly reduced the magnitude of the country's unrecorded transactions in recent years.

Table 2: Transactions in financial derivatives

R billions	Net incurrence of liabilities	Net acquisition of financial assets	Net financial derivatives
1st quarter 2011	-51,281	58,898	7,617
2nd quarter 2011	-53,075	49,377	-3,698
3rd quarter 2011	-59,150	61,435	2,285
4th quarter 2011	-81,556	88,491	6,935
2011	-245,062	258,201	13,139
1st quarter 2012.....	-57,605	64,948	7,343
2nd quarter 2012	-46,912	49,989	3,077
3rd quarter 2012	-44,365	51,267	6,902
4th quarter 2012	-64,987	62,043	-2,944
2012	-213,869	228,247	14,378
1st quarter 2013.....	-47,912	51,518	3,606
2nd quarter 2013	-44,838	47,083	2,245
3rd quarter 2013	-50,063	51,246	1,183
4th quarter 2013	-45,541	45,985	0,444
2013	-188,354	195,832	7,478
1st quarter 2014.....	-47,961	54,179	6,218
2nd quarter 2014	-43,713	48,354	4,641
3rd quarter 2014	-39,592	40,346	0,754

Conclusion

The adoption of BPM6 followed from South Africa's commitment to adhere to international best practice in compiling balance-of-payments statistics. A table comparing the BPM5 and BPM6 frameworks as adopted by South Africa is appended as Annexure A. With the main recommendations of BPM6 now implemented, South Africa aims to introduce the remaining (minor) recommendations gradually over the next few years.



Annexure A: Comparison of the BPM5 and BPM6 frameworks as adopted by South Africa

BPM5	BPM6
Current account	Current account
Merchandise exports	Merchandise exports
Net gold	Net gold
<i>Minus:</i> Merchandise imports	<i>Minus:</i> Merchandise imports
Trade balance	Trade balance
Net service payments	Net service payments
Transportation	Transportation
Passenger fares	Passenger fares
Other	Other
Travel	Travel
Other services	Other services
	Manufacturing services on physical inputs owned by others
	Repairs and maintenance services on movable goods n.i.e.
	Financial and insurance services
	Charges for the use of intellectual property
	Telecommunications, computer and information services
	Personal, cultural and recreational services
	Other business and miscellaneous services
Net income payments	Net income payments
Net current transfer payments	Net current transfer payments
Net service, income and current transfer balance	Net service, income and current transfer balance*
Current account balance	Current account balance
Capital transfer account balance	Capital transfer account balance
Financial account	Financial account
<i>Direct investment</i>	<i>Net direct investment</i> (Inflow (+)/outflow (-)) (1)
Liabilities	Net incurrence of liabilities
Assets	Net acquisition of financial assets
Net direct investment (1)	
<i>Portfolio investment</i>	<i>Net portfolio investment</i> (Inflow (+)/outflow (-)) (2)
Liabilities	Net incurrence of liabilities
	Equity securities
	Debt securities
Assets	Net acquisition of financial assets
	Equity securities
	Debt securities

Net portfolio investment (2)	<i>Net financial derivatives</i> (Inflow (+)/outflow (-)) (3)
	Net incurrence of liabilities
	Net acquisition of financial assets
<i>Other investment</i>	<i>Net other investment</i> (Inflow (+)/outflow (-)) (4)
Liabilities	Net incurrence of liabilities
Assets	Net acquisition of financial assets
Net other investment (3)	
	<i>Reserve assets</i> (Increase (-)/decrease (+)) (5)
Balance on financial account (1) + (2) + (3)	Balance on financial account (1) + (2) + (3) + (4) + (5)
	Memo item: Balance on financial account excluding reserve assets (1) + (2) + (3) + (4)
Unrecorded transactions	Unrecorded transactions (6)
Change in net gold and other foreign reserves owing to balance of payments transactions	
Change in liabilities related to reserves	
SDR allocations and valuation adjustments	
Net monetisation (+) / demonetisation (-) of gold	
Change in gross gold and other foreign reserves	
Memo item: Change in capital transfer and financial accounts including unrecorded transactions	Memo item: Balance on financial account excluding reserve assets including unrecorded transactions
	(1) + (2) + (3) + (4) + (6)

* These figures are reported on a gross basis in the annual 'services, income and current transfers' table