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To: Members of the Executive Board  
From: The Secretary  
Subject: Fifth Edition of the IMF Balance of Payments Manual

There is attached for the information of the Executive Directors a paper reporting on the status of the fifth edition of the *IMF Balance of Payments Manual (Manual)*. The paper describes the modalities that were adopted in the preparation of the *Manual*, its scope and orientation, and addresses the issue of its implementation.

Copies of the *Manual* will be available for circulation during the 1993 Annual Meetings. French, Spanish, Arabic, Chinese, and Russian translations of the *Manual* are in preparation and will be available during the coming months.

Mr. Gill (ext. 37921) or Mr. Bame (ext. 36493) is available to answer technical or factual questions relating to this paper.

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Department Heads



INTERNATIONAL MONETARY FUND

Fifth Edition of the IMF Balance of Payments Manual

Prepared by the Statistics Department

Approved by John B. McLenaghan

September 17, 1993

I. Introduction

This paper reports on the status of the fifth edition of the *Balance of Payments Manual* (the *Manual*), which is to be published shortly and is to be available for circulation (in English) during the 1993 Annual Meetings. French, Spanish, Arabic, Chinese, and Russian translations of the *Manual* are in preparation and will be available during the coming months.

The primary purpose of the *Manual* is to provide standards for concepts, definitions, classifications, and conventions and to facilitate the systematic national and international collection, organization, and comparability of balance of payments and international investment position statistics. As was the case for previous editions of the *Manual* issued by the Fund in 1948, 1950, 1961, and 1977, the fifth edition of the *Manual* is to serve as an international standard for the conceptual framework underlying balance of payments statistics and as a guide to member countries in submitting their regular balance of payments reports to the Fund. The needs and views of national compilers and users (at the international as well as national level) of balance of payments and international investment position statistics have been ascertained and are reflected in the fifth edition. The staff is in the final stages of completing the first edition of a companion volume, the *Balance of Payments Compilation Guide*, to be issued by early 1994. The *Guide* is designed to provide practical guidance to national compilers, particularly those in countries where statistical systems are in the early stages of development or where systems are in transition, in regard to the collection, presentation, and systematization of external statistics.

The *Manual* addresses the many important changes that have occurred in the manner in which international transactions are conducted since the fourth edition was published in 1977. These changes reflect, in particular, the liberalization of financial markets, innovations in the creation and packaging of financial instruments, new approaches to restructuring external debt, and unprecedented growth in international transactions in services. Also, for the first time, prominence is accorded to the stocks of external financial assets and liabilities--the international investment position--in addition to balance of payments transactions. Thus, in a major shift in orientation from the fourth edition, the new *Manual* provides international

guidelines for the compilation of data for an articulated set of international accounts, with links between balance of payments transactions and stock positions explicitly delineated. An additional impetus to the preparation of the fifth edition of the *Manual* was the work undertaken to revise the system of economic and financial statistics encompassed in the *System of National Accounts (SNA)*. There was the need to achieve, to the maximum extent possible, harmonization between the two systems. The fifth edition differs from its predecessor in other respects, which are covered subsequently.

Section II of this paper discusses the various stages of the revision process, including the steps taken to ensure that the views of national and international balance of payments experts were taken into account. Section III highlights the major differences between the fourth and fifth editions of the *Manual*, and section IV deals with issues to be faced by countries in implementing the revised *Manual*.

## II. Preparation of the Revised Manual

The program of work for the revision of the *Manual* was initiated in 1990. It began after the issuance of the *Report on the World Current Account Discrepancy (SM/87/13)*, January 12, 1987, which was considered by the Executive Board at EBM/87/25, was published in 1987, and included, among its major recommendations, the review and updating of the 1977 edition of the *Manual*. (A similar recommendation was included in the *Report on the Measurement of International Capital Flows [SM/92/24]*, February 7, 1992, which was considered by the Executive Board at EBM/92/26 and published in 1992.) In March 1987, the Statistics Department sponsored a meeting on External Sector Transactions for the Revision of the *System of National Accounts (SNA)*, attended by core groups of balance of payments and national accounts experts, as part of the Fund's integral role in the process of the first revision of the *SNA* since 1968. All participants agreed that, to the maximum extent possible, harmonization of the *SNA* with the fifth edition of the *Manual*, and with other Fund statistical systems pertaining to money and banking and government finance statistics, would be of high priority.

The modalities followed in the preparation of the fifth edition involved continuing and close consultation with national compilers, users, and interested international organizations. There was substantial support for the revised edition from these groups, whose points of views and comments at various stages of the revision process were accurately reflected in the *Manual*. In addition, an advisory group of Fund staff provided assistance in articulating operational and analytic needs of the Fund in the area of balance of payments and international investment position statistics.

The drafting process for the fifth edition began with the preparation of a comprehensive annotated outline that was considered by Fund departments and then distributed, for comments, on May 24, 1990, to all national balance

of payments correspondents of the Fund and concerned international organizations. Subsequently, a first draft of the *Manual*, incorporating those comments, was prepared and forwarded for the consideration of member countries and international organizations. Based on the responses received, a detailed discussion paper was prepared covering major substantive issues, including the Fund's *Report on the Measurement of International Capital Flows*. The paper was sent to correspondents and served as the basis for discussion, at a meeting of balance of payments experts held at Fund headquarters during March 16-27, 1992, with representatives from each of the constituencies of the Executive Board and from international organizations. Decisions taken at those sessions, as incorporated in the report of the meeting (SM/92/152), August 5, 1992, were reflected in the final draft fifth edition of the *Manual*, which was circulated to all member countries and international organizations in March 1993. The distribution of the completed *Manual* culminates a long and carefully considered process that has involved national balance of payments experts (both compilers and users), national accounts experts, representatives of other international organizations, and Fund departments. Throughout the *Manual's* preparation, there was continuous coordination on the part of the Fund with other international organizations and groups. In particular, Fund staff participated in meetings of the OECD in reference to international services, direct investment, and other financial transactions; EUROSTAT's Balance of Payments Working Party; the Intersecretariat Working Group on National Accounts; the Expert Group on SNA Coordination; and the Interregional Seminar on the Revision of the SNA that took place in Mexico in October 1992.

### III. Scope and Orientation of the Manual

The fifth edition of the *Manual* differs significantly from the fourth. In addition to the important changes mentioned above, the following major changes are highlighted herein:

- All valuation changes, reclassifications, and other adjustments, including those in reserve assets, are excluded from balance of payments transactions and included in the international investment position.
- The current account of the balance of payments is redefined to exclude capital transfers; current transfers continue to be included.
- Capital transfers are included in the capital account component of an expanded and redesignated capital and financial account. The financial account component is equivalent to the former capital account. The changes involving transfers provide for harmonization with the SNA's rest of the world account in terms of underlying concepts and the identification of major aggregates.

- Within the current account, clear and separate identification is made among goods, services, income, and current transfers.
- Reflecting the heightened policy interest in data on international transactions in services, significant disaggregation is introduced in the classification of such transactions.
- The classification of the financial account follows a hierarchical structure: functional categories, asset/liability distinctions, instrument specifications, sectorization, and the identification of long- and short-term instruments (for certain components).
- Within the financial account functional categories, for direct investment--particularly for analytic usefulness--separate totals for liabilities to, and claims on, direct investors on the part of affiliated enterprises (and vice versa), in addition to the net figures for each, are recorded for equity capital and other capital.
- The category of portfolio investment has been expanded to include money market instruments and appropriate financial derivatives, as well as longer-term debt and equity securities, to reflect the growth of new financial instruments and new financial market participants. In addition, for both portfolio investment and other (than direct) investment, instruments are classified according to institutional sector--of the resident creditor for assets and the resident debtor for liabilities. The sectoring improves links with Fund and other statistical systems, particularly the SNA.
- The category of other investment is the only one for which the traditional short- and long-term maturity is maintained, reflecting its continued usefulness for analysis of external liabilities (particularly for heavily indebted economies) but its lesser importance as a classification criterion in most other instances.
- New and extensive coverage of various forms of exceptional financing transactions is featured, including tabular details of appropriate balance of payments entries.
- Reflecting the emphasis of the fifth edition on the articulation of the set of international accounts, there is consistent alignment in the classification scheme for income and financial transactions and for stocks of external assets and liabilities. In this regard, a new chapter on the international investment position, together with a two-dimensional presentation of components of the position and changes thereof, is included.

- Regional statements of transactions and stocks, which have assumed increased importance for statistical, analytical, and policy purposes, are covered in another new chapter. Included is a full discussion, with examples, of regional allocation principles.
- Although there are significant differences between the fourth and fifth edition of the *Manual*, the latter preserves the continuity of the data collection framework and reports to the Fund. Every effort has been made to delineate concepts clearly, to relate them appropriately to practical considerations and limitations, and to establish conventions that may be applied, when data sources allow, within a consistent framework.

#### IV. Implementation

The importance of adhering to *Manual* guidelines for balance of payments accounting and for compiling the international investment position was emphasized as one of the major recommendations in the *Report on the Measurement of International Capital Flows*: "National compilers should prepare their balance of payments accounts in accordance with the *Manual*; they must report data to the Fund in this form and on a timely basis. This extremely important objective must be met in order to avoid inconsistencies between countries and further growth in world discrepancies, to facilitate the Fund's surveillance responsibilities, and to support domestic policymakers." Furthermore, national accounts compilers recognize the close linkage of the international accounts to the SNA. That linkage is reinforced by the fact that, in most countries, balance of payments and international investment position data are compiled first and subsequently incorporated into the national accounts.

Compilers in some industrial countries have already begun the process of adapting their compilation to the methodology and guidelines recommended in the fifth edition, based upon drafts of the *Manual* and consultation with the Statistics Department. Many compilers have become familiarized with the revised structure, classification, and other changes in the fifth edition through attendance at recent Fund courses on balance of payments methodology, including those at the IMF Institute, at the Joint Vienna Institute (for FSU countries), and in Australia (for Asian and Pacific countries), co-sponsored with the Australian Bureau of Statistics.

Nonetheless, significant further training and technical assistance is likely to be required for compilers from many countries. Even for the most advanced countries, it will take time to implement the adaptation to the new framework. The same applies to the revision of the Fund's reporting format and presentations in the *Balance of Payments Statistics Yearbook*. In this regard, the Statistics Department also is planning to present a seminar (or seminars, if required) for Fund staff, delineating the important changes in methodology and classification incorporated in the fifth edition of the *Manual*.

