BALANCE OF PAYMENTS

MANUAL

THIRD EDITION

JULY 1961

(reprinted January 1966)

INTERNATIONAL MONETARY FUND

WASHINGTON 25, D.C., U.S.A.

FOREWORD

This third edition of the Balance of Payments Manual, like its predecessors, the 1948 and 1950 editions, constitutes the basis for regular reports of balance of payments data to the International Monetary Fund. This edition, however, not only defines and describes the content of the categories employed but also attempts to explain their rationale. In particular, the introductory sections have been elaborated to describe more fully the basic concepts and accounting principles that are common to the balance of payments and the other social accounts. With these amendments, the Manual has become as much an introduction to the principles of balance of payments accounting as a guide to reporting.

For the sake of theoretical completeness, the material covers a number of minor points that are usually of little or no significance for reporting. Such material, which often appears in small type or is identified by using the phrase "in principle" to introduce it, may generally be disregarded in compiling reports. Indeed, the whole of this Manual should be applied flexibly. As stated in the Foreword to the earlier editions, the character and relative importance of different categories of items vary widely from country to country, and the difficulty of obtaining a particular type of information must always be weighed against the relative need for it in analyzing the international position of the country concerned.

While retaining the basic principles of its predecessors, this third edition of the Manual introduces a number of changes in classification and presentation, of which the following are the most important. First, the categories of the accounts for goods and services and for transfer payments have been rearranged, and their definitions have been modified in various minor respects mainly in order to coordinate the Manual more closely with the UN and OEEC Systems of National Accounts. Second, the capital account has been reorganized to introduce a more detailed classification of changes in foreign assets and liabilities by sector. The previous sector for official and banking institutions has been divided into central government, central monetary institutions, and other monetary institutions; local governments, which formerly were part of the private sector, are now shown as a separate sector. At the same time, the formal distinction between long-term and short-term capital, which varies in significance for the different sectors, has been deemphasized. These changes have been made mainly to integrate the balance of payments data with sector finance statistics (and, in particular, with the monetary survey section on the country pages in the Fund's International Financial Statistics), which have shown a remarkable development during the last decade. Third, certain technical changes have been introduced in the classification of the balance of payments by countries and areas. The classification has been made more relevant for economic analysis and, at the same time, has been made to conform more closely to the statistics that are likely to be available.

In carrying out the revisions of the Manual, the Fund staff has had the benefit of the advice of the experts in other international organizations and in member countries. Their active cooperation during the drafting of this edition has resulted in many improvements in the presentation and descriptions, and the Fund staff would like to express its appreciation to all those who contributed to the preparation of this new version.

July 1961

Washington, D. C.

CONTENTS

(References in parentheses are to paragraphs)

CONTENTS

(References in parentheses are to paragraphs)

CONTENTS

(References in parentheses are to paragraphs)

UNDERLYING PRINCIPLES

1. The balance of payments is part of a larger system of social accounts recording the economic activity of an economy and its various sectors. The social accounts relate to economic transactions not only within the domestic economy but also between the domestic economy and the rest of the world. They include, in addition to the balance of payments, the traditional national income and product statements, for which international standards are laid down in the systems of national accounts of the United Nations (UN) and the Organization for European Economic Cooperation (OEEC), and the statements of changes in financial assets and liabilities of the sectors of an economy which exist in many countries. The two latter types of statement are often combined into an integrated system of national accounts. This revised edition of the Balance of Payments Manual takes account of recent developments in the other social accounts and, in particular, has been coordinated with the UN and the OEEC standards for national accounts, both of which have become available since the first and second editions of this Manual were issued. An effort has also been made to arrange the capital account of the balance of payments in such a way that it can be used in combination with statements of changes in financial assets and liabilities of the sectors of an economy.

(1) Concept of economic transactions; rules of credit and debit

2. A common characteristic of the social accounts is that they cover economic transactions between economic units. Unlike the other social accounts, however, the national accounts also include some accounting transfers within economic units, as discussed below (paragraph 5). An economic transaction occurs when an economic value is provided by one economic unit to another; economic values are goods and services, and financial items (see definition in paragraph 19). Sometimes economic values are exchanged against one another, and sometimes they are provided or acquired without a quid pro quo. Accordingly, five basic types of economic transaction may be distinguished:

a. Purchases and sales of goods and services against financial items, i.e., the interchange of goods and services against claims and monetary gold;
b. Barter, i.e., the interchange of goods and services against other goods and services;
c. The interchange of financial items against other financial items, e.g., sales of securities against money, or the repayment in money of commercial debts;
d. The provision or acquisition of goods and services without a quid pro quo, e.g., under grants in kind;
e. The provision or acquisition of financial items without a quid pro quo, e.g., in payment of taxes or as a gift.

3. The social accounts have common rules of credit and debit for recording economic transactions. Credit entries are made for the provision of goods and services or of financial items, whether they are sold, bartered, or furnished without a quid pro quo; debit entries are made for the acquisition of goods and services or financial items, whether these items are purchased, obtained by barter, or acquired without a quid pro quo. For the first three types of transaction, the rules immediately result in equal credit and debit entries. For the two remaining types, a credit entry for goods and services or financial items is matched by a debit entry for a transfer payment, and vice versa. (In earlier editions of this Manual, the term "donation" was used instead of "transfer payment.")

4. The credit and debit aspects of economic transactions are often referred to as flows, particularly in systems of national accounts. In this Manual, however, the term "transaction" is usually used even when only one aspect of a transaction is being considered. Accordingly, the Manual distinguishes only three basic types of transaction, i.e., transactions in goods and services, transfer payments, and transactions in financial items.

5. In addition to economic transactions, national accounts include certain transfers from one account to another within the same economic unit, e.g., for changes in inventories and depreciation of fixed capital. An increase in inventories of an enterprise, for example, is entered as a credit (a sale) to its production account and as a debit (a purchase) to its capital formation account. The border line between such internal accounting transfers and economic transactions (external flows) is to some extent determined by the definition of economic units, and some flows that are internal to a decision-making economic unit (say the use by a farmer of his own product for consumption) are usually interpreted in the national accounts as transactions between two functional units (say his farm and his household). The balance of payments records only transactions between economic units, but some of these transactions may be regarded as internal accounting transfers within a single decision-making unit (say a direct investment company) which for balance of payments purposes is divided into two or more functional units (say a head office and a branch). The national accounts, however, include some accounting transfers that are internal even to functional economic units in addition to economic transactions as here defined, in particular, transfers between production and capital formation accounts.

(2) Provisional definition of balance of payments

6. The balance of payments of a country may tentatively be defined as a systematic record of the economic transactions during a given period between its residents and residents of the rest of the world, for convenience referred to as foreigners or sometimes, for greater clarity, as nonresidents. This simple definition, however, is subject to a number of qualifications and exceptions, which are stated in the following sections, and a more precise formulation of the definition appears in paragraph 38.

7. The term "resident," where used in this Manual without qualification, means resident of the compiling country. The residents of a country are those economic units that together comprise the domestic economy. The exact definition of residents is discussed in section (3). The term "domestic" is used as a synonym for resident (when used as an adjective) in this Manual, whereas in systems of national accounts it is sometimes used in this sense and sometimes as a synonym for territorial. The concept of territory is not relevant to the balance of payments except that the term "residents" means economic units that have a certain permanent association with the territory of the compiling country. The term "foreign" is similarly used in the Manual as a synonym for resident of the rest of the world and should not be confused with noncitizen, foreign owned, or abroad in a territorial sense. The "rest of the world" is used to mean the aggregate of foreigners in the same way as the "domestic economy" is used to mean the aggregate of residents; neither term has a territorial connotation. The balance of payments may, therefore, be defined alternatively as a systematic record of the economic transactions between the domestic economy and the rest of the world.

(3) Definition of residents

8. The concept of resident is common to this Manual and the UN and the OEEC systems of national accounts.

(a) Individuals

9. Resident individuals include citizens of the compiling country living there permanently Members of diplomatic and consular staffs, official missions, and members of armed forces stationed abroad, and citizens studying or undergoing medical treatment abroad are considered residents of their own country rather than of the country where they are staying. The extent to which other citizens living abroad are treated as residents (travelers) or foreigners (emigrants) depends on a number of factors, such as the permanence of their stay abroad and the extent to which they concentrate abroad their earning activities and their investments, i.e., the extent to which they shift their general "center of interest." The same principle of "center of interest" determines whether a citizen of a foreign country staying in the compiling country should be considered a resident of the latter. When individuals change their residence from one country (country of emigration) to another (country of immigration), they may, during a transition period, have a divided center of interest. While from the standpoint of other transactions they may be regarded as residents of their old country until they migrate and residents of the new country thereafter, it seems desirable to leave their resident status indefinite in recording their transfers of wealth from country to country (see paragraphs 35-37). In these borderline cases the exact content of the resident concept is left to the determination of the compiling country. However, staffs of international agencies (paragraph 17) should always be regarded as residents of the countries in which they are stationed rather than of their home countries.

(b) Institutions

(i) Residents of one country

10. Resident institutions of a given country include the central government and all local governments. Agencies of the compiling country's government operating abroad, such as embassies or military units, are also regarded as residents, and conversely the agencies of foreign governments in the compiling country are regarded as foreigners. Resident institutions also include all business enterprises and nonprofit organizations located in the country, but not their foreign branches or subsidiaries; these are treated as residents of the country in which they operate, because they are considered an integral part of that country's economy. Transactions between other residents of that country and such branches and subsidiaries do not, therefore, concern the balance of payments.

11. Agencies of business enterprises are regarded as residents of the countries in which the agencies operate. However, transactions between residents and foreign business enterprises completed through their agencies in the compiling country are resident-foreigner transactions that qualify for inclusion in the balance of payments. Agencies are thus treated in the same way as any residents who transact business on behalf of foreign principals. While most transactions conducted by domestic agencies of foreign enterprises are thus for foreign account, their resident status is apparent when their relationships to the principals are considered. The agency performs a service for the principal in concluding business contracts on its behalf and receives a payment for this service—usually in the form of a commission. The service rendered by the agency to the principal is a resident-foreigner transaction, which should be included in the balance of payments. On the other hand, the transactions of residents with a domestic agency of a foreign enterprise in which the agency acts for its own account rather than on behalf of its foreign principal, e.g., when it makes payments of rent for office space and of wages and salaries to its employees, do not enter the balance of payments because they take place between residents.

12. As a general rule, fixed assets located in a country are included in the computation of domestic capital formation in the national accounts, as defined in the UN and the OEEC standard systems, and when such assets are owned by nonresidents, the foreign ownership is construed as a financial liability on equity account. The use of such fixed assets is similarly construed as part of a domestic productive activity. The Manual accepts this national accounts convention, which implies, for the balance of payments, that fixed assets included in the computation of domestic capital formation but owned by foreigners must be construed as belonging to resident economic units. Even fixed assets (other than military installations; see paragraph 267) owned by foreign governments are so treated. Thus, a building in the compiling country which is owned and used by a foreign diplomatic mission is regarded under this convention as a resident, whereas the mission itself is treated as a foreigner. The use of the building is treated as a service provided by the domestic building to the foreign mission, which in turn has an income from its investment in the building, i.e., a financial investment in the compiling country. Similar imputations are made for transactions between the compiling country's diplomatic missions abroad (residents) and the buildings which they own and use (foreigners) and, more generally, for any transactions involving fixed assets directly owned by nonresidents but included in the computation of domestic capital formation in the country where they are located.

(ii) Residents of more than one country

13. The activities of certain organizations and enterprises are divided between several countries in such a way that they cannot be considered as residents of any one country but must be regarded as residents of each country in which their economic activity forms an integral part of the economy. Usually, the various parts of such organizations can readily be distinguished as separate economic units, because they have their own individual functions within the organizations; there is no difficulty, therefore, in considering them as residents of the countries in which they operate. It is in accordance with this principle that branches and subsidiaries are regarded as residents of the country where they are located.

14. A more difficult problem arises when several countries participate in an enterprise, but the participation of each does not constitute a separate economic activity. Examples of this type of enterprise are ocean shipping companies and airlines owned and operated jointly by several countries. Such enterprises are not construed to be residents of any one country but may usefully be regarded as residents of all the countries which participate in the ownership. In accordance with the UN and the OEEC standards for national accounting, the airplanes and ships owned by such companies are attributed as domestic fixed capital to the owning countries in proportion to their ownership; the transactions of each country in the various categories entering the balance of payments may be prorated on the same basis.

15. A similar problem arises when a railway line that is an integral part of a foreign system runs through domestic territory, or where an oil pipeline through a country is used exclusively for transit. Such facilities are counted as domestic real capital for national accounts purposes to the extent that they are located in the compiling country's territory. Although it is difficult to separate the economic activity with which they are associated on that territory from similar activity abroad, nevertheless, for national accounts purposes, the part of the operation that takes place within the compiling country is attributed to a resident economic unit, and the part that takes place abroad is regarded as foreign. A similar convention for balance of payments purposes is necessary to preserve consistency between balance of payments and national accounts concepts. Enterprises owning such facilities are thus regarded in this Manual as residents of all the countries over which their facilities extend; they are divided into economic units on a territorial basis which has no counterpart in a division by function as in the case of ordinary direct investment enterprises. In certain cases it may be desirable to make ad hoc exceptions to this general rule; see paragraph 23.

16. The practice of dividing a single decision-making unit into two or more economic units is introduced only on a rather limited scale in the balance of payments because national economies can, in practice, be separated more easily from one another than can the sectors of an economy. The practice is followed much more widely in the classification of the economy by sectors in the rest of the social accounts. In particular, the owners of unincorporated enterprises are there treated as belonging to an enterprise sector in their capacity as producers, and to a household sector in their capacity as consumers. If they consume their own product, they are assumed to sell such product in their capacity as producers (members of the enterprise sector) to them-

selves in their capacity as consumers (members of the household sector). Their net income from production is treated as being paid by the enterprise sector to the household sector, and the portion of this income which is retained in the enterprise is treated as "lending" by the household to the enterprise sector. Similar imputations are made for the economic activity of government enterprises. In addition, all imputations made for balance of payments purposes must also be made in the other social accounts.

(iii) International agencies

17. International agencies, i.e., intergovernmental organizations other than those engaged in nonfinancial enterprise activity, are regarded as residents of an international area outside national boundaries rather than as residents of the countries in which they are located. All transactions of a compiling country with international agencies must thus be included in its balance of payments. Intergovernment business organizations are not treated as international agencies but are classified as residents or foreigners or are treated as residents of more than one country in accordance with the foregoing rules.

(4) Economic transactions entering the balance of payments

18. Transactions in goods and services, as defined in this Manual refer not only to the output of current and past production in the form of intermediary and final products, but also to the original services of factors of production, such as the services of labor and capital. Such original services, when viewed as input in a productive process, are sometimes referred to in national accounts systems as factor income, i.e., they are described with reference to the financial flows that are their counterpart. In this Manual, goods and services cover factor services as well as goods and nonfactor services. All interest and other investment income is included in goods and services, even though in the national accounts interest paid by households and government is treated as transfer payments in the calculation of income and product. The treatment of such interest in the balance of payments, however, is in accordance with that in the "rest of the world account" in the national accounts. For reconciliation with the national accounts, provision is made within the appropriate categories of goods and services for the separate recording of those transactions that are classified in the "rest of the world account" in the standard systems of national accounts as "factor income," but this category is not used as a major classification in the Manual itself. Goods and services also include the so-called existing assets, some of which, e.g., land, do not originate in production. However, transactions in land are not usually assumed to take place between residents and foreigners because of the convention by which most fixed assets on a country's territory are treated as belonging to resident economic units.

19. Transfer payments, as defined in this Manual, cover the same types of transaction as those so classified in the other social accounts. Transactions on capital account, as defined in this Manual, refer to financial items, i.e., creditor claims, equities, and monetary gold; "equities" include the imputed equities discussed in paragraph 12. They are divided into transactions in assets and those in liabilities. Assets are monetary gold and claims held by residents on foreigners; liabilities are claims held by foreigners on residents. The acquisition (purchase) and

liquidation (sale) by foreign governments of civilian installations in the compiling country are construed as transactions in financial claims. However, similar transactions in military installations are regarded as transactions in goods and services.

20. Gold is treated as the equivalent of a creditor claim on a foreigner when held by monetary institutions, but as a good when held by other parties. Transactions in goods and services therefore include those in gold ("nonmonetary gold") by residents other than monetary institutions but exclude those of monetary institutions. The treatment of gold in this Manual is further discussed in paragraph 33 and in the General Notes to Tables II(a) and II(b), paragraphs 158-69.

(5) Imputed transactions

21. Like the other social accounts, the balance of payments includes (although to a lesser extent) a certain number of imputed transactions, some of which have been referred to above. The need to impute transactions in the balance of payments arises mainly from the geographical bias in defining residents which results from the classification of most productive activity taking place in the territory of the compiling country under the direction of nonresidents as the activity of imputed resident economic units. An extreme example of such imputations involving embassy buildings was discussed in paragraph 12.

22. The extent to which transactions of economic units that are directed by nonresidents must be imputed depends on their degree of functional autonomy. Imputation is not usually necessary, because the transactions of branches and subsidiaries of direct investment companies with their parents abroad and other nonresidents can usually be derived from their own accounts and their export and import declarations. Imputation may become necessary only because some of the transactions, such as exports and imports, may be valued at nominal rather than market values. In such cases, imputed market values must be substituted for the nominal values, and the income of the foreign investors (and if necessary the change in their investment) must be recalculated accordingly. A related case is the transfer of capital goods (defined as goods held for business purposes) by migrants, which are included as exports by their old country and imports by their new country. Such export and import transactions may be regarded as resident-foreigner transactions independent of the resident status of the migrant as an individual, because, in accordance with the definitions in national accounting, an export of capital goods by a migrant is necessarily made by an enterprise in the old country (i.e., a resident of that country) and the import by an enterprise in the new country (i.e., a resident of that country). As in the case of merchandise transactions within a direct investment enterprise, there is not, however, a transfer of ownership to the goods between two independent parties (for further discussion of transfers of wealth by migrants, see paragraphs 34-37).

23. More difficult imputations are necessary when the resident unit, e.g., the local part of an oil pipeline running through several countries, has no function that can be readily separated from the nonresident part of the same organization. To accord with national accounts practices, such a pipeline would have to be assumed to render a transportation service to nonresidents for oil

shipped through it in transit and to earn an imputed income for the investors which is equal to the value of this service (and of any service it may provide to residents) net of local costs including depreciation and taxes. In some special cases, however, facilities of this kind may not be integrated with the domestic economy to such a degree that they can usefully be attributed to it, and it may be desirable to make an ad hoc exception to the rule that fixed assets in the territory of the compiling country are regarded as part of the domestic economy. If no such ad hoc exception is made, the fixed assets are regarded as belonging to a domestic economic unit similar to a branch of a direct investment enterprise.

24. The undistributed earnings of direct investment enterprises form a special case of imputed transactions. The income of branches of such enterprises located in countries other than that of the parent enterprise is included in the balance of payments. This is necessary, whether or not there is an actual transfer of the earnings from country to country, because earnings of branches automatically accrue to their parents. They represent an internal transfer within a single decision-making unit, and no formal act of distribution can be distinguished by which the earnings become the property of the head office. On the other hand, earnings of subsidiaries and other direct investment corporations are formally distributed to their stockholders. Yet the difference between a branch and such a corporation often has little economic significance. A parent company, or an organized group of stockholders, can usually control the distribution of dividends, thus deciding the amount of earnings that is to be retained in the enterprise. For this reason, this Manual provides for including in the balance of payments all income on direct investment, as defined in paragraph 367, whether or not distributed. The undistributed earnings of direct investment corporations are offset by entries in the capital account. Such earnings are often an important source of new investment and their exclusion might seriously understate the influence of direct investment on the international economic situation of many countries.

(6) Exceptions to the resident-foreigner principle

25. In order to render the balance of payments more suitable for those purposes of analysis for which it is designed, several exceptions are made to the principle that the balance of payments records transactions between residents and foreigners. First, the balance of payments omits certain transactions between residents and foreigners. Second, it includes certain transactions between residents or even between foreigners.

(a) Exceptions arising from uniform valuation basis for merchandise

26. Since the balance of payments is a systematic record, transactions in merchandise are recorded on a uniform valuation basis which also leads to a uniform coverage for the transportation and insurance entries. In general, the valuation basis is f.o.b. the customs frontier of the exporting country for both exports and imports, but for countries unable to report imports on this basis, this Manual provides the alternative of valuing imports c.i.f. the customs frontier of the importing country. The f.o.b. basis for both exports and imports makes the export and import data comparable as between trading partners. For comparing data for each country over time, valuation as of some common boundary is necessary. If merchandise were valued in accordance with the

varying terms of the individual transactions, it might sometimes be recorded f.o.b. some inland point in the exporting country, sometimes f.o.b. its customs frontier, and sometimes c.i.f. the importing country's customs frontier, or even some inland point in it. It would be impossible to determine to what extent changes from period to period in figures compiled on such varying bases were due to underlying economic factors, as expressed in quantum and price, or were purely nominal, resulting from changes in the contractual place of delivery. The distortion to the record of transportation and insurance transactions would be proportionately much greater. It is therefore necessary to define the border line between merchandise and the related transportation and insurance in accordance with some uniform principle.

27. Uniform valuation of merchandise transactions entails two fictions. First, costs of freight and insurance incurred for transferring the goods to the point of the uniform valuation always represent transactions between a resident of the exporting country, usually the exporter, and the carrier or insurer. Second, similar costs incurred for transferring the goods beyond that point always represent transactions between the importer and the carrier or insurer.

28. The first fiction is quite unrealistic when foreigners have in fact provided transportation and insurance inside the valuation boundary, but this circumstance arises rather infrequently if both exports and imports are valued f.o.b. the customs frontier of the exporting country. One instance of such a transaction would arise when the importer hires a truck in his own country to pick up goods in the exporting country. In this case the freight payment is in fact a transaction between residents of the importing country. Since it is nevertheless included as a receipt in the merchandise account of the exporting country as part of the f.o.b. value of its exports, and as a payment in the merchandise account of the importing country as part of the f.o.b. value of its imports, it is necessary to make mutually offsetting entries in the balances of payments of both countries for the overstatement of receipts and payments, respectively. The balance of payments of the exporting country will record a freight payment canceling the overstatement of export receipts, these mutually offsetting elements representing in fact a transaction between foreigners. In the importing country's balance of payments, the offsetting entry is a freight receipt which represents a transaction between residents canceling the overstatement of payments to foreigners on merchandise account. Where imports are valued c.i.f. in countries engaged in international transportation on a considerable scale, the exception to the resident-foreigner principle may be quite significant. The c.i.f. value of imports is likely to include rather large amounts for costs of freight and insurance paid by the domestic importers to residents, which must be offset by entries for receipts for freight and insurance. Again, the mutually offsetting entries represent transactions between residents of the importing country. Although some freight and insurance received by residents on imports may represent genuine resident-foreigner transactions, e.g., where the goods were shipped from the exporting country on consignment and sold to residents of the importing country only after their arrival in that country, they usually represent transactions between residents. By valuing imports as well as exports f.o.b. the exporting country, the amount of resident-resident transactions included in the balance of payments as a result of uniform valuation of merchandise is minimized.

29. The second fiction is reasonably realistic. It means that the exporter is regarded as only an intermediary in arranging shipments of the goods beyond the frontiers of his own country. If he pays freight and insurance, he is assumed to do so on behalf of the foreign importer who ultimately reimburses him directly or indirectly. This seems realistic when the goods have been sold to the foreign importer before shipment from the exporting country; it is not so realistic when the goods have been sold while en route or on arrival in the importing country; it is clearly unrealistic where the goods are shipped on consignment and stored for the exporter's account in the importing country before they are sold there. As the result of this fiction, freight and insurance payments to foreigners by residents of the exporting country for transfer beyond its customs frontier, and the direct or indirect reimbursement of such expenditures by foreign importers, are omitted from the over-all balance of payments. While these transactions may be regarded as only nominal in the majority of cases, in other cases the omission is a clear departure from the resident-foreigner principle. However, since the amounts omitted from the credit and debit sides of the balance of payments are equal, except for timing differences, the net balance of credits or debits is not affected.

(b) Exceptions arising from principles for recording changes in foreign assets and liabilities

30. The balance of payments records all changes in the foreign assets and liabilities of the compiling country which result from economic transactions. While the net changes included in the balance of payments in its assets or in its liabilities can result only from transactions between residents and foreigners, certain mutually offsetting changes in the distribution by sector of the compiling country's foreign assets and liabilities may arise from transactions between residents, and certain mutually offsetting changes in the distribution by type of holder of its foreign liabilities may arise from transactions between foreigners.

31. Transactions between residents which result in the transfer of foreign assets between two of the sectors distinguished in the capital account are implicitly included in the balance of payments. The most important transactions of this kind are the transfers of foreign exchange from monetary institutions to other resident holders, and vice versa. Changes in the sector composition of foreign assets are of great interest to the users of balance of payments data. For instance, a flight of capital abroad at the expense of a country's international reserves, or the vesting of private foreign assets by the monetary authorities, is of vital concern to that country even though both parties to the transaction are residents. The balance of payments therefore includes changes in foreign assets held by each of the sectors distinguished, independent of whether they arise from transactions between residents and foreigners or from transactions between domestic sectors. Transactions between residents which result in the transfer of foreign liabilities between two domestic sectors are less common but by no means unknown. For example, commercial banks may assume the liability for import arrears that were originally incurred by the private sector, or the central government may take over the payments agreement liabilities of the central bank.

32. There are two reasons why transactions between foreigners in the liabilities of the compiling country may be included. First, changes in certain liabilities, mainly bank deposits, are classified by type of foreign holder, and a transfer of such deposits from one type of foreign holder (say a foreign central bank) to another type of foreign holder (say a foreign private party) will therefore be reflected in mutually offsetting entries, even though both parties to the transaction are foreigners. Second, since some foreign liabilities are classified by country or area on the basis of the residence of the foreign creditor, a transfer of such liabilities (for example, bank deposits) between residents of different areas will appear in the balance of payments as an increase in liabilities to one area offset by a decrease in liabilities to the other. Transactions of both types may be significant for those countries in which foreign countries keep their foreign exchange reserves, but are likely to be negligible for most other countries.

(c) Exception for gold transactions

33. International reserves may be held in the form either of gold or of foreign exchange; accordingly, when gold is held by monetary institutions it is treated in the balance of payments as if it were a foreign asset. In ordinary circumstances, gold held by private parties, such as gold mines and industry, is similar to merchandise, although sometimes it may be hoarded for reasons similar to those that induce flights of capital. By convention, however, the classification of gold transactions in the balance of payments is based wholly on an institutional criterion. All gold transactions of monetary institutions, whether with other residents or with foreigners, are entered in the capital account as changes in monetary gold holdings, and all transactions in gold by the nonmonetary sectors, whether with the monetary sectors or with foreigners, are entered in the goods and services account as referring to nonmonetary gold—an item that is similar to merchandise. This conventional treatment of gold transactions is common to this Manual and the UN and OEEC systems of national accounts. Gold transactions between the monetary institutions and the rest of the domestic economy, although transactions between residents, thus give rise to mutually offsetting entries. An increase in monetary gold holdings arising from such transactions is offset by a credit entry for nonmonetary gold, representing the equivalent of an export. A similar decrease in monetary gold holdings is offset by a debit entry for nonmonetary gold, representing the equivalent of an import. The treatment of gold transactions is further discussed in the General Note to Tables II(a) and II(b), paragraphs 158-69.

(7) Changes in valuation and coverage; migrants' transfers

34. The balance of payments covers only transactions and omits those changes in a country's foreign assets and liabilities that arise from valuation changes. The changes in assets and liabilities recorded in the balance of payments may not, therefore, represent the whole change in a country's international creditor-debtor position during the reporting period. Changes in the debtor-creditor position may also arise from changes in the territory of the compiling country, such as the cession or acquisition of territory by it. As a consequence of such events, residents become foreigners, and vice versa. The resulting changes in a country's debtor-creditor position are not, however, included in the balance of payments, since they reflect changes in coverage rather than transactions.

35. The changes in a country's creditor-debtor position that occur as the result of migration are likewise the reflection of changes in coverage. In contrast to the one-time changes that arise from cession or acquisition of territory, however, those that are caused by migration are continually taking place. Over the years, the wealth in the form of financial items or real capital brought into a country by immigrants may be a significant source of foreign exchange for its monetary authorities or may contribute substantially to its domestic capital formation. Conversely, the wealth taken out of a country by emigrants may be a substantial source of drain on the resources of that country. It is useful and appropriate, therefore, to account in the balance of payments for the international transfers of wealth that accompany migration.

36. Any one of several alternative procedures might be used to record migrants' transfers. In the first and second editions of the Manual, the act of migration was assumed to involve a transfer payment (then called a donation) made by the migrant in his capacity as a resident of the old country to himself in his capacity as a resident of the new country. As a result of this transaction, all the migrant's real and financial assets were assumed to become the property of the new country, whether or not there was an actual transfer of the assets from country to country. The present Manual, however, proposes a method of recording that differs significantly from the procedures previously recommended. Only the wealth that is actually transferred from the migrant's old country to the new country should be entered in the balance of payments, and not all the migrant's real and financial assets. This means, for example, that an industrial plant owned by an immigrant that is located in the old country or funds left on deposit by an immigrant in a bank in the old country should not automatically be entered in the balance of payments when migration takes place; however, if the plant is dismantled and shipped to the new country (or sold and the proceeds remitted to the new country), or if funds are withdrawn from deposit in the old country and redeposited in the new country, then a transfer has taken place and should be recorded. Thus the country of immigration (the new country) should enter in its balance of payments (a) all imports of capital goods by immigrants for which it does not give a quid pro quo; (b) all transactions by immigrants that increase its financial claims on other countries or its monetary gold holdings; and (c) all transactions by immigrants that reduce its liabilities to other countries. Conversely, the country of emigration (the old country) should enter (a) all exports of capital goods by emigrants for which it does not receive a quid pro quo; (b) all transactions by emigrants that increase its liabilities to other countries; and (c) all transactions by emigrants that reduce its financial claims on other countries or its monetary gold holdings. In contrast to the procedure recommended in earlier versions of this Manual, exports and imports of migrants' personal and household effects should not be included in the balance of payments. This is because transfers of personal and household effects by migrants are not included in the imports of the country of immigration or the exports of the country of emigration in the national accounts. On the other hand, all exports and imports of capital goods, whether new or secondhand, are included in the national accounts to maintain a complete record of real capital formation. The dismantling and export of an industrial plant and its shipment to another country, for example, are recorded as negative capital formation in the exporting country and positive capital formation in the importing country, and such shipments should be included in the balance of payments because they represent a transfer of wealth from country to country.

37. The acquisition of real and financial assets by the country of immigration (including the reduction in its liabilities) will be reflected in debit entries in its balance of payments (in item 1 for capital goods and items 11-16 for financial assets and liabilities). In the country of emigration, the corresponding entries for the export of capital goods and the decrease in net financial assets will be credits. The financing of the transfer of these assets from country to country, however, whatever form it may take, should all be included as migrants' transfers in item 9, private transfer payments (credit for the country of immigration; debit for the country of emigration). This should be done even though the financing could quite properly be considered in most cases to represent capital movements; for example, an immigrant's imports of capital goods or his deposits in a bank in the new country may be financed by a reduction in his balances at a bank in the old country, and might well be interpreted as an inflow of capital for the new country. The classification of migrants' transfers as transfer payments is adopted mainly to make it easier to appraise the significance of migrants' transfers in the balance of payments and to facilitate reconciliation with the national income and product statements, where they are considered transfer payments. If the financing of migrants' transfers of property were accounted for in the capital account, some of it would be appropriate to private long-term capital and some to private short-term capital; in addition, some would be entered as assets and some as liabilities. Since it would be impossible to record it all in one place, it would not be easy to distinguish this financing from other capital movements. The classification of the financing as transfer payments is further justified because the distinction between changes in assets and liabilities would not be very meaningful for analysis. The division between assets and liabilities would depend on whether it was assumed that the migrant had become a resident of the new country or was still a resident of the old country. To make this distinction, it would be necessary to determine exactly when his resident status changed. However, the significance of the migrants' transfers would be the same whichever assumption was made. The classification of migrants' transfers as transfer payments makes it unnecessary to decide whether the migrant is a resident or a foreigner during the period of transition. Reasonable limits should, however, be set to the duration of the transition period; transfers that occur more than a year or two before or after migration should not be considered as migrants' transfers but should be recorded like other transactions of foreigners (before immigration or after emigration) or of residents (before emigration or after immigration). The exact determination of when the transition period begins and ends is left to the discretion of the compiling country.

(8) Final definition of balance of payments

38. In the light of the discussion so far of the content of the balance of payments, the provisional definition given in paragraph 6 may be modified as follows. The balance of payments is a system of accounts covering a given period that is intended to record systematically (a) flows of real resources, including the services of the original factors of production, between the domestic economy of a country and the rest of the world, (b) changes in the country's foreign assets and liabilities that arise from economic transactions, and (c) transfer payments, which are the counterpart of real resources or financial claims provided to, or received from, the rest of the world without any quid pro quo. While the balance of payments mainly covers transactions between residents and foreigners, there are several exceptions, all intended to make the statement more suitable for analyzing the economic relations between the domestic economy and the rest of the world.

(9) Difference from record of exchange transactions

39. In countries having exchange controls, the record of exchange transactions (money transfers between residents and foreigners through the domestic banking system) is frequently used as a basic source of balance of payments data. If the record is limited to actual transactions through the banking system, however, it will differ (for reasons given in paragraph 40-43) in respect to coverage, classification, and timing from the balance of payments as defined above. It may therefore fail to provide the information needed for an effective administration of the exchange control itself. For this reason, other types of information are frequently recorded by the exchange control authorities; when this supplementary information is adequate, the adjusted exchange record is a valuable source of data for the balance of payments statement.

(a) Coverage

40. Because an exchange record covers only transactions that give rise to money transfers through the domestic banking system, it excludes all barter transactions and gifts in kind. Moreover, it only partially covers other transactions, since some substantial transactions between residents and foreigners may not be settled through the local exchange market. For example, the proceeds of exports may not be surrendered to a bank in the exporting country but may be used by the exporter to build up private foreign exchange balances or to purchase goods abroad; or imports may be financed by drawings on a long-term loan from the exporting country; or income from investments abroad, especially direct investment, may be reinvested there. The whole range of transactions between a parent company and its branches or subsidiaries may be financed outside the exchange control. Again, some transactions, such as foreign travel, may be financed outside the official market. Adjustments to the exchange record must be made to include these and similar transactions in the balance of payments.

(b) Classification

41. When an exchange record is used to compile a balance of payments statement, certain items frequently have to be eliminated or reclassified. For example, in order to provide uniform treatment, export and import transactions should be valued in the balance of payments at a common boundary, preferably f. o. b. the frontier of the exporting country, with international freight and insurance costs on merchandise shown in the freight and insurance account. In an exchange record, however, export and import transactions may not be valued at a uniform boundary but at different ones according to the terms of the actual transactions, and hence they may or may not include costs of international transportation and insurance. To adjust the exchange record to a balance of payments basis, international freight and insurance costs on exports should be eliminated from merchandise trade. The part of these costs paid to domestic companies should be entered as receipts in the freight and insurance account; and the part paid to foreigners should be deducted from the debit side of this account. Adjustments also have to be made for freight and insurance on imports.

42. A more difficult problem of classification arises when individual international transactions are not settled separately but are charged and credited to open book accounts. In such cases the international transfers shown in the exchange record frequently cover the net balance of various transactions that cannot be separately identified and properly classified. Lump sum transfers of this sort are customary between head offices of direct investment enterprises and their branches and subsidiaries.

(c) Timing

43. The balance of payments is defined to cover merchandise and service transactions as they occur, i.e., when the goods are sold and the services rendered. An unadjusted exchange record covers payments made during the reporting period in settlement of merchandise or service transactions, some of which may have occurred in a previous period or (as in the case of prepayments) may not occur until later. If credit is given in connection with the sale of goods or services, a balance of payments statement should immediately show the sale in the goods and services account and the credit in the capital account; an unadjusted exchange record, on the other hand, does not show the transaction until the obligation is settled. However, by obtaining supplementary information about shipments on credit it is possible to adjust the exchange record to show changes in ownership and the short-term capital movements connected with trade.

(10) The balance of payments and other social accounts

44. The basic principles for recording transactions in the balance of payments and the other social accounts are the same in many respects, but some differences in the classifications and the structure of the accounts should be noted.

(a) Principles for recording transactions

45. Each economic transaction may be conceived of as consisting of two flows. Each flow is matched by another flow which either constitutes a quid pro quo or is a transfer payment. For each flow there are two transactors, e.g., the buyer and seller or the payer and payee. There are thus four aspects of a transaction that may be distinguished, e.g., in the case of a commodity sold for cash: the purchase, the sale, the payment of money, and the receipt of money. The following diagram illustrates this example:

	Transactor A		Transactor B
Real flow	(1) Credit	$\longrightarrow$	(2) Debit
Financial flow	(3) Debit	$\longleftarrow$	(4) Credit

46. The balance of payments covers an open system, since it mainly records the resident aspects of resident-foreigner transactions. It does, however, record the resident end of both flows making up an economic transaction. This principle of recording may be referred to in terms of the diagram as a vertical double-entry system. If transactor A is the resident and transactor B the foreigner, entries (1) and (3) would be made in the balance of payments of the compiling country.

47. In contrast, both national accounts and sector finance statements usually cover a closed system, since they record the transactions of the rest of the world as well as those of the domestic sectors. Each flow arising from economic transactions entering these accounts and statements is thus included twice, once for each transactor. For example, the national accounts would show entries (1) and (2) of the table in paragraph 45, and statements of sector finance would show entries (3) and (4). This principle may be referred to as a horizontal double-entry system. When the accounting system relates the two ends of each flow to each other by means of cross references, the accounts are described as articulated. Some transactions will be reflected in two flows, and thus four entries, in the national accounts (e.g., transfer payments in kind) or sector finance statements (exchanges of financial items); moreover, those flows for which specific entries have not been provided will be reflected in balancing items for net lending and borrowing. When these entries are taken into account, both national accounts and sector finance statements may in a formal sense be regarded as quadruple-entry systems.

48. Those transactions that are included in the balance of payments even though they are between residents or between foreigners are recorded somewhat differently from the other transactions entering the balance of payments and may occasionally be reflected there in four entries. The recording of such transactions is discussed in paragraphs 66-68. There are also exceptions to the rule that there are quadruple entries in the national accounts: the internal accounting transfers, i.e., accounting transfers that are internal to a single economic unit, such as depreciation or changes in inventories, are recorded in the national accounts with only two entries.

(b) Classification of goods, services, and transfer payments

49. In the national accounts, a distinction is made between goods and nonfactor services, on the one hand, and "factor income," i. e., payments for factor services, on the other; the term "goods and services" is commonly used to designate goods and nonfactor services.

50. In the national accounts, the flows of goods and nonfactor services into and out of the domestic economy are entered in the "rest of the world account" and, in addition, in an account for domestic product (i.e., goods and nonfactor services assumed to be produced in the domestic economy) in which the sources (domestic product and imports) and uses (consumption, investment, and exports) of real resources are analyzed. The "rest of the world account" also records "factor income," i.e., payments for the services of foreign factors of production considered to be engaged in production in the domestic economy and receipts from the services of domestic factors of production considered to be engaged in production in the rest of the world. The sum of domestic product and net factor income from abroad is national product. National product less consumption and investment is equal to the net export of goods and services, including factor services, as recorded in the balance of payments. The balance of payments can therefore be used as an independent source for checking the consistency of the estimates for production, consumption, and investment.

51. The balance of payments is usually the source of data for the "rest of the world account" of the national accounts. However, in the balance of payments, the major emphasis is on the classification of transactions in goods and services by type, such as merchandise, transportation, travel, etc., whereas the national accounts categories—factor services and goods and nonfactor services—are not directly relevant for the analysis of international transactions. In the "rest of the world account," the major emphasis is on the classification by these national accounts categories, since the classification by type is only of secondary importance.

52. Transfer payments (sometimes called "transfers") in the "rest of the world account" of the national accounts cover the same transactions as those entered in this category in the balance of payments. In the national accounts, as defined in the UN and OEEC systems, transfer payments are divided between the so-called "current" and "capital" transfers. In the "rest of the world account," as well as in the accounts for domestic sectors, current transfers are those that are conceived by their recipients as income, and capital transfers are those that are not so conceived. This distinction is not applied in the balance of payments, as defined in this Manual, because the criteria set out in the national accounts systems for distinguishing between current and capital transfers are not readily applicable to a classification of international transfer payments. Most international transfer payments result from intergovernmental grants that cannot be classified into income or nonincome. Moreover, the distinction between current and capital transfers, even if it could be readily applied, would not be relevant for the analysis of the balance of payments itself. Instead, transfer payments are classified in this Manual into "central government" and "other" from the standpoint of both the compiling country and the foreign country, and other detail is provided, which, together with the institutional classification, may help to determine whether the transactions can best be regarded as current or capital transfers in the national accounts.

53. The balance of goods and services (including factor services) and all transfer payments is described in the "rest of the world account" as net lending of the nation to the rest of the world. This is equivalent to the balance of the same transactions as shown in the balance of payments and, disregarding errors and omissions in the estimates, to the increase in foreign assets less the increase in liabilities as recorded in its capital account.

(c) *Classification of capital items*

54. Statistics of changes in the financial assets and liabilities of the sectors of an economy usually distinguish the changes in foreign assets of each domestic sector from those in its domestic assets. The changes in the foreign assets of the domestic sectors cover the same transactions that are recorded for foreign assets in the capital account of the balance of payments and have the same sign. In both cases, changes in foreign assets of each sector are recorded whether they arise from transactions with the rest of the world or from transactions with other domestic sectors. In sector finance statements, however, the number of sectors distinguished is usually larger than in the balance of payments, in which only those sectors likely to have important foreign assets and liabilities are shown separately. The "rest of the world account" of sector finance statements records, as changes in liabilities of the rest of the world, the net changes in the foreign assets of all the domestic sectors combined and therefore the net movements in foreign assets as shown in

the balance of payments. Domestic transactions included in the record of changes in foreign assets in the balance of payments are thus generally mutually offset in the "rest of the world account." The only exception is that changes in monetary gold holdings are treated like changes in foreign assets (liabilities of the rest of the world) in the "rest of the world account." As in the balance of payments, they are included whether they arise from transactions between residents and foreigners or from transactions between residents.

55. Transactions in foreign liabilities, as recorded in the balance of payments, refer to liabilities of the domestic sectors. Transactions in those liabilities are the main object of sector finance statements, most such transactions taking place between the domestic sectors. For each type of domestic sector liability, the net balance of the transactions of all domestic sectors represents transactions with the rest of the world and enters the balance of payments with the same sign. The "rest of the world account" of sector finance statements shows the same balance as the change in assets of the rest of the world.

(11) The balance of payments and UN standards for external trade statistics

56. As far as practicable, the definition of exports and imports for balance of payments purposes in this Manual, and the uniform standards for compilation of external trade statistics recommended by the UN Economic and Social Council and its Statistical Commission, have been coordinated with each other. Thus, a number of borderline cases between trade and other transactions in goods and services (e.g., transactions in marine products, ships and airplanes, ships' supplies, electricity, and gold) are resolved in the same way in the Manual and in those standards, and transactions values are used as the valuation basis in both. In principle, exports and imports compiled in accordance with the definitions in this Manual cover changes in ownership of goods, while external trade statistics record those physical movements of goods across the customs frontier of the compiling country that may be regarded as flows of real resources between the domestic economy and foreign countries. However, the modifications that have been introduced in both the balance of payments and the external trade statistics have tended in practice to bring the two standards into close agreement. Thus, exports and imports, as defined in the balance of payments, cover in general the types of transaction that are recorded in external trade statistics. In this revised version of the Manual, a change of ownership is imputed in some important cases where goods exported and imported for processing without a change of ownership are included in external trade statistics as flows of real resources. These statistics, as defined in the UN standards, include some goods that do not cross the customs frontier of the compiling country (e.g., fish and other marine products caught and sold abroad by residents, and purchases and sales by residents of ships engaged in operations outside the compiling country). Merchandise transactions abroad, which cannot be recorded in external trade statistics, and which were included on a gross basis in the merchandise account in the earlier editions of the Manual, are entered in this revised version of the Manual only on a net basis. The remaining differences between the UN standards for external trade statistics and this Manual in the coverage of exports and imports are due to practical rather than to theoretical considerations. A balance of payments which is prepared only at intervals can provide for more adjustments than external trade statistics which must continuously be kept up to date.

57. With respect to valuation, the UN standards for external trade statistics recommend that imports be valued c.i.f. the importing country, whereas this Manual expresses a preference for their valuation f.o.b. the exporting country. However, this Manual also provides for an alternative c.i.f. valuation of imports. The f.o.b. valuation of imports has been selected as the preferred method in this Manual because it results in a symmetrical classification between partner countries of transactions not only in merchandise but also in transportation and insurance.

(12) Regional classification of the balance of payments

58. For many purposes, it is useful to have an analysis of a country's over-all balance of payments by countries and areas. In preparing such an analysis, various principles may be followed. The classification may be based on the residence of the foreign party to the transaction (the transactor principle), or—for transactions on capital account—either on the residence of the foreign transactor or on the residence of the foreign party involved as creditor or debtor (the creditor-debtor principle). Again, in classifying the transactions in accordance with the transactor principle, the foreign party with whom the transactions are directly conducted (say a merchant intervening between the exporter and importer) may be by-passed as an "intermediary" and the classification based on the residence of the original party (say the original exporter or importer). Unless the transactor principle is followed rigidly throughout the accounts, it is necessary to make a number of adjustments in the accounts to balance each bilateral statement. The problems of defining and compiling the balance of payments are multiplied many times when a regional classification is added.

59. The value of a regional classification of the balance of payments has varied over time. Immediately after World War II, when international payments were highly compartmentalized, a classification of them by each area with which payments were conducted under special arrangements was needed by most countries for operational purposes. Subsequently, as progress was made toward a multilateral system, the need for regional balance of payments data was reduced. Nevertheless, even under conditions of full convertibility, such data are essential for analyzing international transactions in relation to developments in specific foreign markets.

60. This Manual provides a system of allocating the balance of payments by countries and areas. To permit comparisons from country to country, the system of regional classification has been defined in such a way that, if followed by all countries, transactions would be reported symmetrically, i.e., a transaction of country A with country B would also be shown as a transaction of country B with country A. The system describes in considerable detail the adjustments that are necessary to balance a country's statement of transactions with particular countries and areas. While it is considered useful to give a systematic exposition of the problems of classifying the balance of payments regionally, it is realized that the amount of regional detail that can be usefully compiled will vary from country to country and from time to time. For this reason, this Manual does not contain a standard list of countries and areas by which the balance of payments should be classified. Such lists are provided in the Fund's annual requests for balance of payments data based on this Manual, but these requests are varied from time to time to take account of changes in the institutional arrangements for international transactions.

TABLE A. GLOBAL BALANCE OF PAYMENTS SUMMARY

Part 1: Goods and Services, and Transfer Payments

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate : US$..............Per ....

Item	Table	Credit	Debit
A. Goods and Services (1 through 8)			
1. Merchandise	I		
1.1. Exports f.o.b., Imports ______			
1.2. Other merchandise (net)			xxx
2. Nonmonetary gold	II		
3. Freight and insurance on international shipments			
3.1. Freight	III.A		
3.2. Insurance	III.B		
4. Other transportation	IV		
4.1. Passenger fares			
4.2. Time charters			
4.3. Port expenditures			
4.4. Other			
5. Travel	V		
6. Investment income	VI		
6.1. Direct investment income			
6.2. Other dividends			
6.3. Other			
7. Government, not included elsewhere	VII		
7.1. Military transactions			
7.2. Nonmilitary transactions			
8. Other services	VIII		
8.1. Nonmerchandise insurance			
8.2. Other			
Memorandum item: factor income (item 6 and part of items 7 and 8)..........			
B. Transfer Payments (9 plus 10)			
9. Private*..........	IX		
9.1. To and from foreign governments			
9.2. Other			
10. Central government	X		
10.1. Intergovernmental			
10.2. Other			

* All residents other than the central government.

TABLE A. GLOBAL BALANCE OF PAYMENTS SUMMARY *(continued)*

Part 2: Movements of Capital and Monetary Gold

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Table	Assets		Liabilities	
		Credit	Debit	Credit	Debit
C. Capital and Monetary Gold (11 through 16)					
11. Private † long-term (including all direct investment)	XI				
11.1. Direct investment					
11.2. Capital in associated enterprises .... mixt					
11.3. Other common stocks					
11.4. Foreign central government securities				xxx	xxx
11.5. Other securities					
11.6. Other loans and trade credits					
11.7. Other assets and liabilities					
12. Private † short-term (other than direct investment)	XII				
12.1. Currency and bank deposits				xxx	xxx
12.2. Foreign central government securities				xxx	xxx
12.3. Trade credits					
12.4. Other assets and liabilities					
13. Local governments †	XIII				
13.1. Issues abroad		xxx	xxx		
13.2. Other securities					
13.3. Other assets and liabilities					
14. Central government †	XIV				
14.1. Long-term issues abroad		xxx	xxx		
14.2. Other long-term securities					
14.3. Short-term securities					
14.4. Long-term loans					
14.5. Other long-term assets and liabilities					
14.6. Other short-term assets and liabilities					
15. Central monetary institutions	XV				
15.1. Accounts with IMF					
15.2. Marketable assets				xxx	xxx
15.3. Deposits					
15.4. Loans					
15.5. Other foreign assets and liabilities					
15.6. Gold				xxx	xxx
16. Other monetary institutions	XVI				
16.1. Marketable assets				xxx	xxx
16.2. Deposits					
16.3. Loans					
16.4. Other foreign assets and liabilities					
16.5. Gold				xxx	xxx

† Excluding monetary institutions.

TABLE A. GLOBAL BALANCE OF PAYMENTS SUMMARY *(concluded)*

Part 3: Reconciliation of Part 1 and Part 2 ♦

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Credit	Debit
17. Goods and Services (1 through 8)		
18. Transfer Payments (9 plus 10)		
19. Foreign Assets and Monetary Gold (11 through 16, assets)		
20. Foreign Liabilities (11 through 16, liabilities)		
21. Total Net Transactions (17 through 20)		
22. Net Errors and Omissions		
23. Total (21 plus 22)		

♦ Part 3 of the Global Balance of Payments Summary (Table A) reconciles the transactions in goods and services, and transfer payments covered in Part 1 with the movements of capital and monetary gold covered in Part 2. For each of the principal accounts in Part 1 and Part 2, i.e., for goods and services (Part 1: items 1 through 8), for transfer payments (Part 1: items 9 plus 10), for foreign assets and monetary gold (Part 2: items 11 through 16, assets), and for foreign liabilities (Part 2: items 11 through 16, liabilities), a net credit or debit is transferred to Part 3, and the sum total of the net credits, on the one hand, and of the net debits, on the other, is entered in item 21, total net transactions. Finally, net errors and omissions (item 22) brings into balance the totals of the net transactions, so that the credits and debits, when entered in the total (item 23), are equal.

Errors and omissions are included in the reconciliation table (Part 3) on a net basis, since differences on account of incomplete, inaccurate, and inconsistent sources are likely to be at least partly offsetting. A credit entry in this item is the result of either a net understatement of recorded credits or a net overstatement of recorded debits; a debit entry is the result of either a net understatement of recorded debits or a net overstatement of recorded credits.

BASIC METHODOLOGY

supplementary tables

(1) General description of schedule

61. The schedule consists of a series of detailed tables (Tables I-XVI) which describe the basic information ideally required for the construction of the balance of payments and two summary tables: Table A, showing the manner in which the details fit together into a statement of the compiling country's global balance of payments, and Table B, with a supplement, in which the data in Table A are classified by country and area. The detailed tables are arranged in the order in which they enter Table A and are identified by Roman numerals corresponding to the Arabic numerals used to designate the items in that table (Table I corresponding to item 1, etc.). The tables are accompanied by a series of notes which describe the composition of the entries.

62. In order to present a more rounded view of the subject covered, some of the detailed tables show certain domestic transactions which do not enter into the balance of payments. Thus, in Tables II(a) and II(b), in which the entries for nonmonetary gold are derived, total gold production and total inflow of gold into the domestic nonmonetary sectors are shown, although these totals may include a certain amount of gold output sold directly to domestic buyers for nonmonetary use not reflected in the balance of payments. Similarly, Tables III.A and III.B, covering freight and insurance on international shipments, are so constructed that they include data on freight earnings and insurance premiums accruing to residents on imports, although these transactions do not enter the balance of payments when imports are recorded on an f.o.b. basis. Transactions of this type are entered as memorandum items in the detailed tables but are not transferred to the summary tables.

(2) Major classification

63. The summary tables, Tables A and B, are divided into three parts. Part 1 covers transactions in goods and services, and transfer payments; Part 2 covers movements of capital and monetary gold; and Part 3 provides a reconciliation of Parts 1 and 2. Transactions in goods and services and transfer payments are grouped in the first part for reasons of convenience, not because they are regarded as subdivisions of a "current account." In the first and second editions of the Balance of Payments Manual, the two categories were so described, current transactions being defined as transactions not representing movements of capital or monetary gold. However, the use of the term "current" has been discontinued because neither this definition nor any single alternative one has been generally adopted. In the UN and OEEC national accounts systems, the term, when applied to transactions of residents, relates to production, income, and consumption, and cuts across the distinction between goods and services and transfer payments, all of which are

divided into those on current account and those on capital account. In the "rest of the world account" of these systems, all transactions in goods and services are treated as current, but transfer payments are divided into current and capital (see "Underlying Principles," paragraph 52). In published balance of payments statements, some countries apply the term "current" to transactions in goods and services alone, while other countries also include in this category some or all transfer payments. Where only part of the transfer payments is classified as current in such presentations, the definition may or may not coincide with that used in national accounts work. Because of these differences in usage, it seems preferable not to use the term "current" in this Manual.

64. In the national accounts, the expression "account" refers to a segment of an accounting statement that is closed by a balancing entry. For instance, the current account statement for a domestic sector is closed by an entry for saving, which in turn is transferred to its capital account. This principle of balancing individual accounts is not followed in the schedule of this Manual. Instead, a net credit or debit is calculated for each of the major accounts, and the sum of net transactions on these accounts is brought into balance by an entry for net errors and omissions (see next section).

(3) Double-entry system; errors and omissions

65. The balance of payments employs a double-entry system of accounting. In general, the two offsetting entries for a given transaction or flow are not made explicitly but are included as a result of the methods used for estimating the balance of payments. The principle for recording transactions is different for transactions between residents and foreigners and for other transactions. Transactions between residents and foreigners involve entries in accordance with the "vertical" double-entry system described in "Underlying Principles" (paragraph 46). For the five basic types of economic transactions described in paragraph 2 of "Underlying Principles," the entries are as follows:

	Number of Entries in Account for		
	Goods and services	Transfer payments	Movements of capital and monetary gold
Purchases and sales of goods and services against financial items	one	none	one
Barter	two	none	none
Interchange of financial items	none	none	two
Provision or acquisition of goods and services without a quid pro quo	one	one	none
Provision or acquisition of financial items without a quid pro quo	none	one	one

66. Transactions between residents or between foreigners are recorded in accordance with the "horizontal" double-entry system (see "Underlying Principles," paragraphs 47-48). Such transactions in freight and insurance premiums (see "Underlying Principles," paragraph 28) involve two entries in the goods and services account (Table A, items 1-8). For instance, in countries recording imports on a c.i.f. basis, freight accruing to residents on imports is included as a debit in item 1 and as a credit in item 3 of Table A. Conversely, those transactions between residents and foreigners that are excluded from the balance of payments because of uniform valuation of merchandise involve equal omissions from the debit and credit side of the goods and services account.

67. Transactions in gold or foreign assets between residents which enter the balance of payments (see "Underlying Principles," paragraphs 30-33) usually have as their counterpart a transaction in a domestic asset or liability. For such transactions, only one of the two flows is recorded in the balance of payments, but both ends of that flow are entered, In terms of the diagram in "Underlying Principles" (paragraph 45), entries (3) and (4) rather than (1) and (3) are recorded. When two foreign assets are exchanged between residents who are classified in different sectors, or when gold and/or foreign assets are exchanged between the monetary sector and one of the nonmonetary sectors, the balance of payments records four entries, i.e., both ends of each of the two flows.

68. Transactions between foreigners in foreign liabilities included in the balance of payments (see "Underlying Principles," paragraph 32) are usually reflected in only two entries--a credit for an increase in a liability to one type of foreign holder and a debit for a decrease in a liability to another type of foreign holder. It is conceivable, although not very likely, that such transactions may be reflected in four entries.

69. The schedule is defined in such a way that, as far as practicable, equal credit and debit entries are provided. However, since the sources on which the entries are based may be incomplete or inaccurate, and different sources which may not be consistent with one another are in most cases used for the two flows making up the transactions, an item for errors and omissions is included in Table A to bring the statement into balance. Since errors and omissions are likely to be partly mutually offsetting, the item is described as "net errors and omissions." A credit entry for errors and omissions denotes a net understatement of recorded credits or overstatement of recorded debits; conversely, a debit entry denotes a net understatement of recorded debits or overstatement of recorded credits.

(4) Rationale of detailed categories

70. The detailed categories shown in Table A have been selected mainly to distinguish types of transaction that have their own characteristic behavior; in part, however, they are adapted to reporting convenience, and in part they are designed to preserve comparability as between countries within larger groups of transactions where the comparability of individual categories is not feasible because of practical difficulties.

(a) Goods and services

71. The first item in Table A covers merchandise transactions, i.e., exports and imports as defined in international standards for external trade statistics, with such adjustments as are necessary to adapt these data to balance of payments concepts. This category is distinguished because the basic data are usually available in external trade statistics, and further detail by country and commodity that is useful for the analysis of the over-all movements can thus readily be obtained. Table I, Merchandise Transactions, is so constructed, however, that alternatively the data can be derived from exchange records in countries where such records are superior to the external trade statistics as a statistical source.

72. The second item in Table A, nonmonetary gold, covers transactions in gold that are regarded as similar to merchandise transactions, including transactions between the monetary institutions of the compiling country and the rest of its economy (see "Underlying Principles," paragraphs 20 and 33). The major components, the balance of which is entered on a net basis, are gold production and the use of gold in industry. This item is shown immediately after merchandise transactions because it covers gold treated as merchandise; it is shown separately because, in a world matrix of international transactions, nonmonetary gold does not add to equal debits and credits, but results in a net balance which has its counterpart not in the merchandise account but, as explained in the General Note to Tables II(a) and II(b), paragraph 160, in the net movement of monetary gold.

73. Freight and insurance on international shipments of goods are recorded as the third item in Table A, mainly because imports are not in practice reported on the same valuation basis by all countries, and freight and insurance on merchandise do not, therefore, have a uniform coverage from country to country. When the data for all countries are combined, items 1 and 3 together should logically add to equal debits and credits, but not each of these items separately. Insurance premiums and freight accruing to residents on merchandise other than imports of the compiling country are offset in a world matrix of international transactions by insurance premiums and freight paid by other countries, either reported as such or included in the c.i.f. value of merchandise. In countries reporting imports at c.i.f. values, freight earnings and insurance premiums on imports accruing to residents are included as debits in item 1 and as credits in item 3 and are hence mutually offsetting within the two items.

74. Transportation other than freight on international shipments of goods is a significant category that can usefully be related to freight receipts and payments. Moreover, it is usually derived from the same sources. Other transportation is, therefore, shown after freight and insurance on international shipments of goods as item 4 of Table A. Nonmerchandise insurance, on the other hand, is usually negligible and is therefore combined with "other services" (item 8).

75. The fifth item in Table A, travel, is distinguished both because it has a distinctive behavior and because it is usually derived from separate sources. Travel excludes international passenger fares which, mainly for reasons of reporting convenience, have been included in item 4, other

transportation. Sometimes, however, it is impossible to separate international passenger fares from (other) expenditures on travel. Indeed, from the standpoint of reporting convenience, it might sometimes be preferable to include credits for passenger fares in other transportation, and debits in travel.

76. Item 6 of Table A shows investment income, i.e., income of foreigners on their financial capital invested in the compiling country and of residents on their financial capital invested abroad. This is a distinct category from the standpoint of both behavior and statistical sources. It is usually by far the largest component of international factor income, a category needed to adjust estimates of domestic product to cover national income and product.

77. Items 7 and 8 in Table A show transactions in goods and services not included in the preceding items. Item 7 covers transactions of foreigners with the central government of the compiling country and with its personnel stationed abroad; and transactions of residents with foreign central governments and their locally stationed personnel. Item 8 covers all other transactions in goods and services. Miscellaneous transactions in goods and services are divided into these two categories (items 7 and 8) mainly because transactions associated with the stationing of troops in foreign countries or with aid programs (included in item 7) are often large and have a distinctive behavior. It is undesirable to combine such transactions with private transactions of a quite different character.

(b) Transfer payments

78. Within the second major grouping, transfer payments, the major subclassifications are by institution. Item 9 of Table A shows "private" transfer payments, i.e., those made and received by residents other than the central government of the compiling country, subdivided into those with foreign central governments and those with other foreigners. Item 10, covering transfer payments made and received by the compiling country's central government, is similarly subdivided by foreign sector. International transfer payments are usually made and received by the household sector, as defined for national accounts purposes, or by the central government, and the institutional classification of transfer payments thus helps to provide data needed for the preparation of the national accounts. The institutional classification also helps to separate items that have a different behavior in the balance of payments. Intergovernmental grants, which are often made to support a program for economic development or to meet a deficit in the balance of payments, behave quite differently from transfer payments between private residents and foreigners, such as remittances by migrants or inheritances, which are made for personal reasons not related to economic policy. The behavior of transfer payments is likely to be influenced more by the donor (who may be a foreigner) than by the recipient, and the institutional classification therefore distinguishes the sector of the foreign party as well as that of the domestic party.

(c) Capital and monetary gold

79. Movements of capital and monetary gold are, like transfer payments, classified by institution. The capital account, however, distinguishes five, rather than two, sectors of the compiling country. Two sectors are provided for monetary institutions, "central" and "other" (items 15

and 16, respectively, in Table A), because changes in the assets and liabilities of these institutions usually play a prominent role in the settlement of international transactions; for some purposes, it may be useful to combine these two sectors into a single "monetary sector." Furthermore, the schedule distinguishes the compiling country's central government (item 14), local governments (item 13), and a residual sector termed "private" (items 11 and 12, long-term and short-term, respectively). The changes in the assets and liabilities of the central government frequently reflect economic policy, whereas changes in those of the private sector are mainly determined by market forces. Local government is an intermediate category. The coverage of the various sectors and the rationale of their separation are further discussed in the General Note to Tables XI-XVI (paragraphs 336-65).

80. The transactions attributed to each sector are those that represent changes in its assets and liabilities, and not necessarily those conducted by the sector itself. For assets, the sector classification in fact also indicates the domestic transactor. For liabilities, the sector classification indicates the domestic transactor if he is the debtor with respect to the financial item in which the transaction takes place. However, where the domestic transactor and debtor are different parties (e.g., in the case of private transactions with foreigners in securities issued by the domestic government), the identity of the domestic transactor is usually irrelevant from the point of view of analysis. Most transactions of this kind take place in capital markets where it is a matter of chance who deals with whom. If the transaction takes place in the capital market of the compiling country, it is a matter of indifference to the domestic transactor whether he is dealing with a foreign party. Such transactions, therefore, can often better be explained in terms of the decision of the foreign party to acquire or sell an asset of the particular type. As far as possible, transactions in domestic financial items effected through organized capital markets are shown separately from those transactions in which the domestic and foreign parties deal directly with one another. Within the sectors for local and central governments, for example, new issues and retirements abroad are shown separately from other transactions in securities issued by the reporting country.

81. To interpret transactions in foreign liabilities, it is generally more important to know who the foreign party is than to identify the domestic transactor. It is of interest to know whether the foreign party is a private party, a government, or a monetary institution. In fact, a large part of the liabilities of the domestic sectors is due to their opposite numbers in foreign countries. Thus, most private liabilities are due to foreign private parties. Most liabilities of monetary institutions are similarly due to foreign monetary institutions, although a good part of the foreign deposits with central and other monetary institutions may not be due to the corresponding foreign sectors. Foreign creditors of central governments are even more diversified by sector. Therefore, the tables or notes to the tables suggest distinctions for changes in deposit liabilities of monetary institutions and central government liabilities which identify, or tend to identify, the foreign sector to which the liabilities are due. New issues and retirements abroad are likely to refer to transactions with foreign private investors. For loans raised abroad, the itemization called for

will identify the foreign lender. For transactions in existing securities issued by the domestic government, a classification by type of foreign holder is requested when significant. This classification is believed to be important only for countries whose deposit liabilities and government securities are held as foreign exchange reserves by foreign monetary institutions.

82. Although the sectors are thus defined on an institutional basis, the main purpose of the sector classification itself is to distinguish assets and liabilities with different behavior. For this reason, the border line between the sectors depends to some extent on the behavior and function of the underlying transactions. For instance, government institutions that have a monetary function in international transactions are included in the monetary sector, and those that do not have such a function are included in the government sector. Public corporations whose international transactions are similar to those of private corporations are attributed to the private sector, and those that are monetary institutions to the monetary sector. Public corporations that are instruments of central government policy are included in the sector for central government.

83. Since the sector division focuses mainly on behavior and function, it has seemed essential to make a few exceptions to the creditor-debtor principle of allocation; these are explained in the General Note to Tables XI-XVI (paragraph 347). These exceptions are made where the strict application of the creditor-debtor principle would be awkward for the analytic uses of the statistics.

84. The traditional distinction between long-term and short-term assets and liabilities, which was applied to all capital movements in the first and second editions of the Manual, is given less emphasis, and is now applied to private and central government sectors. The distinction is believed to be unimportant for the monetary sectors because most of the international assets and liabilities of monetary institutions are liquid, regardless of their formal maturities, with the exception of loans, which are shown separately. For local government, short-term and long-term items are not distinguished, because changes in local government foreign assets and liabilities are usually unimportant in the balance of payments.

85. The classifications both by sector and by type of asset and liability are selected in such a way that, as far as practicable, the capital account of this Manual is coordinated with statements of sector finance. However, both types of classification have been limited to what is believed to be relevant for balance of payments analysis per se.

(5) Problems of classification

86. Two major problems of classification encountered in recording transactions are discussed below.

(a) Gross or net recording

87. In general, data on goods and services are so defined as to be entered on a gross basis. However, gross recording in the global balance of payments is confined to transactions which are related to significant economic activity in the compiling country, and excludes transactions in which the compiling country acts merely as an intermediary between two foreign countries. Intermediary

transactions are not agency transactions, since the intermediary acts as a principal, buying and selling for his own account, while an agent acts only for account of his principal. In the tables that give a regional classification, such intermediary transactions should be entered on a gross basis as adjustments to the record of goods and services proper.

88. In the global balance of payments, imports of goods and services cover those imported and consumed or invested by residents, or used by domestic enterprises in further production; exports of goods and services cover exports of goods and nonfactor services produced in the domestic economy and of any goods recovered from consumption and investment, factor services rendered to foreigners, and the net balance of any intermediary transactions in goods and services. For instance, when goods are purchased by merchants in one foreign country and sold to another without being imported, or when a government purchases goods in one foreign country for transfer to another under an aid program, these transactions are regarded as intermediary transactions in goods and services. Intermediary transactions likewise occur when freight and insurance are contracted and paid for by the exporter rather than the importer. Only the net balance of such transactions, which is usually negligible, is included in the global balance of payments. The principle of recording such intermediary transactions only on a net basis in the global balance of payments is related to the principle recommended in this Manual for allocating international transactions by country and area (paragraphs 453-59). According to this principle, countries that act only as intermediaries in the sense here indicated are bypassed. This principle of regional allocation is referred to, for convenience, as the principle of real flows.

89. A difficult choice between gross or net recording arises when goods are imported into a country for processing without a change of ownership. The real flows principle, as described in the preceding paragraph, would suggest that gross recording would be preferable. However, gross recording would lead, in this case, to the imputation of international transactions that have not taken place. In some instance such imputations would appear reasonable, in particular when the processing takes place within a direct investment concern or when the processing arrangement is in essence a method of financing. For this sort of processing, it is suggested that the figures be reported on a gross basis, i.e., that a change of ownership to the processing country be imputed. Otherwise it is recommended that processing for foreign account be included in the balance of payments on a net basis.

90. For transfer payments, generally no problem of gross versus net recording arises. However, some countries receiving aid have made available to the granting country a certain portion of the local currency proceeds of the aid in the form of so-called counterpart funds, and the question arises whether this portion should be netted against the grant or whether the grant and the reverse flow in the form of counterpart funds should be shown on a gross basis in the account for transfer payments. In this Manual, the gross basis has been adopted because the gross transactions can be more readily related to the transactions financed by the original grant and to the use of the counterpart funds than can the net balance.

91. Changes in assets and liabilities are generally recorded on a net basis, separately for assets and liabilities within each category, although there are certain exceptions to this rule (see General Note to Tables XI-XVI, paragraph 355). Sometimes, however, a country may play a purely intermediary role in channeling capital movements between two foreign countries, and it may be preferable to omit such capital movements from the global balance of payments even though technically they represent offsetting changes in assets and liabilities. For instance, U.S. direct investment in a Latin American country may be routed through a subsidiary in a third country, say Canada, which has only a purely nominal function in relation to the investment. When the investment takes place there is a nominal increase in both the foreign assets (in Latin America) and the foreign liabilities (to the United States) of the third country (Canada). The exclusion of such intermediary transactions from the global balance of payments of the third country is analogous to the exclusion of intermediary transactions in goods and services and has similar consequences for the regional classification. In this classification, movements of capital that are allocated regionally by the transactor principle (see General Note to Table B, paragraph 470) should, as far as possible, be attributed to the countries and areas that are the ultimate providers or recipients of the capital.

(b) Transactions arising out of a community of interests

92. Special problems may arise in interpreting the principles of this Manual as they apply to certain transactions, of which those associated with regional defense organizations are illustrative.

93. When military end-items are granted by one country to another, the transfer is for the benefit of both countries. Since there has been a transfer of ownership to the goods, there is no doubt, however, that an economic transaction has taken place, and the theoretical treatment in this case does not present any problems, although it is difficult in practice to obtain information on such transactions. For pragmatic reasons, therefore, they are often treated for national accounts purposes as final government expenditure in the granting country, the international transfer being disregarded and excluded from the balance of payments. While such a treatment may prove necessary in practice, it is not recommended in this Manual, since it would be inconsistent with its basic principles. To make the reported data comparable between countries, it may be advisable to make some ad hoc exceptions to these principles in the requests for data, but such exceptions are not made in the Manual itself, which is intended to provide a theoretical framework for the compilation of the balance of payments. In every respect, military end-items are treated in this Manual in the same way as other goods and services.

94. A more difficult question arises when foreign troops stationed in a country receive, free of charge, goods and services (or local currency) from the host country. There is no doubt that the provision of such goods and services, or currency, constitutes an international transaction. It is difficult to determine, however, whether or not there is a quid pro quo in cases of this sort. On the one hand, there are situations in which the cost to the country in which the troops are stationed

may realistically be regarded as a purchase of defense services. On the other hand, it is evident that in some situations the cost of supporting foreign troops constitutes an expenditure for which no quid pro quo is received; the counterpart of this cost would thus be a transfer payment on any realistic interpretation. It is not possible to establish a general rule for defining the conditions under which the cost of supporting foreign troops should be classified as the purchase of a defense service or as a transfer payment. The interpretation of these transactions will vary with political situations and attitudes even though there may be no change in the basic economic facts. Because of this difficulty, this Manual suggests that goods and services or local currency made available free of charge to foreign troops stationed in a country be recorded in a memorandum item outside the balance of payments proper.

95. A problem of interpretation also arises where a country receives contributions from other members of a defense organization to which it belongs to cover part of the cost of constructing military installations that serve the common purposes of the members. In this case, it is assumed in this Manual that the construction represents a joint purchase of goods and services by all the countries which pay the cost, and, accordingly, a country's contributions to such construction in other countries is classified in the goods and services account.

96. The questions discussed above are specific examples of a more general problem encountered in balance of payments accounts when two or more countries cooperate closely in some field in which they have a community of interest. Other examples are expenditures by governments in their dependent overseas territories for administrative purposes, and such transactions as the contributions of the United States to the cost of constructing the Inter-American Highway in certain Latin American countries. The classification of such expenditures in the goods and services account or as a transfer payment depends on whether the expenditure is regarded as primarily for the benefit of one country or the other, a determination which it is often difficult to make. This Manual does not give precise rules for the classification of all such transactions, but suggests that they be interpreted on an ad hoc basis in the light of the broad principles here outlined.

(6) Problems of valuation

97. In general, the entries in the balance of payments should be made at transactions values. Ordinarily, a transactions value can readily be determined. For transactions between independent parties in a free market, the transactions value is that established in the contract. Where there is no transaction in a free market, other values may have to be used in the balance of payments.

98. First, transactions between enterprises that are considered as separate economic units but that in fact form part of the same direct investment concern may be conducted at prices that have been set above or below market value, e.g., in order to concentrate the earnings of the concern in the country in which taxation is lowest. As mentioned in "Underlying Principles" (paragraph 22), such nominal prices may have to be replaced by imputed market prices in recording the transactions of these enterprises.

99. Second, for goods and services provided without a quid pro quo, e.g., under official grants, it is suggested that the cost to the provider be entered if no other objective value is available. Sometimes the cost to the provider may include a subsidy to domestic producers and may be above the world market price; in that case, it is preferable to substitute the world market price for the cost price, the difference representing the subsidy, i.e., a domestic transaction. Conversely, goods and services provided under foreign aid programs and financed by loans or payment in local currency may sometimes be valued at artificially low prices that conceal a grant. For such transactions it is desirable, in principle, to substitute a value based either on prices in the world market or on the cost to the seller, treating the difference between this value and the contract value as a grant. In practice, it is extremely difficult to obtain the necessary information to revalue such transactions, and they must therefore usually be entered at the official value assigned to them by the country extending the aid.

(7) Problems of conversion

100. In estimating the transactions value in domestic currency, transactions carried out in foreign exchange should be converted at a single rate rather than at the actual rates at which the individual purchases and sales of foreign exchange were carried out. For currencies having an effective par value, the difference between the par value and the buying and selling rates can be regarded as a service charge on the foreign exchange transaction; this service charge will usually be a domestic transaction (see General Note to Tables XI-XVI, paragraph 361).

101. Difficult problems arise in countries having multiple exchange rates or a freely fluctuating unitary rate for their currencies during the reporting period. Such countries are requested to report their balance of payments in terms of a monetary unit with a fixed relationship to gold. Such a statement is not, however, suitable for comparison with the other social accounts, which must necessarily be expressed in domestic currency. The problem of converting the balance of payments into domestic currency in countries that have no effective par value therefore needs further discussion.

102. The case of a country having a freely fluctuating unitary rate is theoretically simple. Transactions can be converted into domestic currency at the rate prevailing at the time they are completed. In practice, however, it may be difficult to compile the balance of payments on this basis, and approximations may be necessary.

103. The case of multiple currency countries is theoretically very complex, and no ideal solution may be possible. Frequently, multiple exchange practices are combined with some form of exchange control whereby sales of exchange at favorable rates are rationed. In any case, the very existence of multiple exchange rates contradicts one of the basic axioms of social accounting, i.e., that identical economic objects, real or financial, have a single price. The case of multiple exchange rates is similar to that of internal price controls, where the same goods or services (say leases of apartments where rent control exists) may command different prices according to whether or not they are subject to control. Under these circumstances, only a pragmatic rather than a theoretical solution can be expected.

104. As a pragmatic solution, it is suggested that balance of payments statements in multiple currency countries be converted into domestic currency at some unitary rate; the difference between the values so obtained and the values obtained by conversion at the rates at which the foreign exchange transactions were in fact carried out could then usually be interpreted as indirect taxes and subsidies. For instance, payments by importers in excess of the domestic currency equivalent of their payments in foreign exchange converted at the unitary rate would be interpreted as the equivalent of a customs duty. Similarly, if exporters have received an amount in local currency larger than the export proceeds surrendered, converted at the unitary rate, the difference would be interpreted as the equivalent of an export subsidy. Sometimes the spread between the unitary rate and the transactions rate would constitute a direct tax, e.g., on the transfer of factor income. A foreign exchange transaction completed between a resident and a foreigner (say a purchase of currency notes by a resident from a tourist) at a rate differing from the unitary rate would imply an international transfer payment, but in the more ordinary case the transfer payment would be between residents. The profit or loss of the monetary authorities on the operation of the multiple exchange rate system would usually be a major component of the transfer payments involved in the conversion from foreign exchange into domestic currency, and vice versa, and would be the only component that could be estimated reliably. This profit or loss could usually be regarded for the most part as a measure of the indirect taxes net of subsidies implied in that system.

105. The choice of the unitary rate to be used for conversion is difficult. One possibility would be to employ a rate that would equate demand and supply in the absence of exchange controls; a second would be to adopt the rate that could be expected to be maintained under a regime of exchange controls regarded as a more realistic alternative to the multiple exchange rate system. The second possibility might be the simpler pragmatic solution. In the former case the gold value of the domestic currency unit would be presumably lower than a weighted average of the rates at which exchange transactions had been carried out, while in the latter case such a weighted average might be applicable. In no case would it be advisable to use nominal par values differing substantially from effective rates.

GENERAL INSTRUCTIONS

(1) Introduction

106. The Balance of Payments Manual is intended to be a logical framework for defining and explaining a consistent system of balance of payments principles and for compiling balance of payments statistics in accordance with this sytem. It is not intended as a bed of Procrustes into which the reports of all countries must be fitted exactly. It is recognized that the categories of the schedule vary greatly in significance from country to country. Certain categories may not be applicable at all to the balance of payments of many countries, a problem which is inherent in any uniform classification scheme. Compiling countries will necessarily have to weigh the difficulty and the cost of obtaining certain information against its usefulness in analyzing their balance of payments. It is therefore expected that countries will find it desirable to combine some categories that are shown separately in the uniform scheme and will not compile data at all for categories that are of little importance to them. The Fund staff would appreciate an opportunity to consult countries on the most effective adjustment of the schedule to their needs.

(2) Reports requested

107. Reports are requested from time to time on the basis of this Manual. The requests specify the particular tables and the supplementary data that are desired and may suggest certain ad hoc exceptions to the Manual principles. Countries with dependent overseas territories should provide separate reports for the metropolitan areas and for each territory or for appropriate groups of these territories. The reports for the metropolitan areas should include transactions with the dependent overseas territories, and those for the dependent territories should include transactions with the metropolitan areas. Countries whose economies are unified by a common monetary system and customs area may provide one report covering all countries to which the arrangements apply. However, if each country has a separate set of national accounts, separate balance of payments reports should be provided for each country if at all possible.

(3) Definition of residents

108. Residents are defined in "Underlying Principles" (paragraphs 8-17). For individuals, the distinction between travelers and migrants has been left somewhat flexible, and countries should use the definition they have found most practicable for balance of payments purposes. The explanatory notes to the report (see section (5), below) should indicate the manner in which the definition of resident has been interpreted in borderline cases.

(4) Valuation unit

109. The figures entered throughout the schedule, except where otherwise specified, should be in some convenient unit of the domestic currency. The unit should be stated on each table, and the rate for converting the figures into U.S. dollars should be specified. For the method of converting data from foreign exchange into domestic currency, see "Basic Methodology," paragraphs 100-105.

110. Reports for countries which have had multiple exchange rates or a freely fluctuating unitary exchange rate (that has in fact fluctuated considerably) for their currencies during the reporting period should be compiled in terms of a monetary unit with a fixed relationship to gold. Countries which have changed the par value of their currency during the reporting period should prepare separate reports for the period before and after the revaluation.

111. While countries with multiple exchange rates should give priority to the report in a monetary unit with a fixed relationship to gold, it would be of interest for the Fund to know the rate which, in the opinion of the compilers, should be used to convert the statement to domestic currency for comparison with the national accounts statements. The principles to be applied in selecting such a rate are suggested in "Basic Methodology," paragraphs 103-05. The Fund staff would be interested in knowing in detail how the rate chosen was arrived at, and would appreciate being consulted about any problems that might arise in finding the appropriate rate.

(5) Explanatory notes and symbols

112. The reports should include detailed explanatory notes similar to, but in most cases more extensive than, the notes in the section for the compiling country in the Fund's Balance of Payments Yearbook. These explanatory notes should describe the content of each item and the method and sources employed in deriving it. In particular, any deviation from the principles and definitions of this Manual should be noted, and the exchange rates applied to the underlying series in deriving the balance of payments entries should be specified, if these rates differ from the unitary rate shown at the head of each table. Where data supplied in accordance with the Fund's definitions for balance of payments purposes differ from those regularly published by the compiling country or those submitted to the Fund for other purposes, a reconciliation of the data should be provided. Such a reconciliation is particularly important for merchandise and for the assets and liabilities of the monetary institutions.

113. It is recognized that items in the Fund's schedules, which are uniform for all countries, will frequently call for data that are of little significance in the international transactions of a particular reporting country. Data of such a character that are not readily available need not be reported, but the omissions should be noted in the explanatory notes.

114. In cases where data cannot be supplied in accordance with the Fund's categories but are available in a somewhat different form, they should be entered in the categories that they most nearly fit, and the nature of the differences should be described in the notes.

115. Items in the tables for which data are not available should be marked by dots (. . . .). Items for which the entries are known or believed to be zero or less than half the final digit used in the tables should be marked with a dash (—).

GENERAL NOTE TO TABLE I

116. Exports and imports in the merchandise account of a balance of payments as constructed in this Manual cover, with a few exceptions, all international changes of ownership to goods that at some stage cross the customs frontier of the compiling country. In addition, exports and imports include (1) some goods that cross the customs frontier without a change of ownership, but for which a change of ownership is imputed; and (2) a few types of transactions (changes of ownership) in goods that do not cross the customs frontier. The account includes both transactions involving a quid pro quo (hereinafter referred to as commercial transactions) and transactions involving no quid pro quo, i.e., gifts, reparations, etc. (hereinafter referred to as noncommercial transactions). Exports and imports should in principle be entered at the time when ownership changes and be valued uniformly at transactions value, preferably at the customs frontier of the exporting country (f.o.b. basis), although for imports the alternative of valuation at the customs frontier of the importing country (c.i.f. basis) is also provided.

117. The usual sources of data on transactions in goods are external trade statistics, based on customs returns, and records of exchange transactions. With data given by these sources as the basis, this Manual defines exports and imports with respect to coverage, timing, and valuation so as to achieve maximum possible consistency and symmetry in the merchandise accounts to be compiled by all countries.

118. The main categories of transactions (i.e., changes of ownership to goods) that are *not* included in exports and imports in this Manual are the following: (1) gold transactions (see Tables II(a) and II(b)); (2) purchases and sales of ships' stores including bunker fuel, included in other transportation (see Table IV); (3) purchases by travelers, included in the travel account (see Table V); and (4) goods procured abroad and used in the country of procurement by diplomatic missions and military agencies, including their personnel (see Table VII).

(1) Goods crossing customs frontiers without change of ownership

119. Goods that cross the customs frontier of the compiling country but do not change from domestic to foreign ownership or vice versa do not normally involve balance of payments transactions. Such goods fall mainly into the following categories: (a) goods exported or imported for

storage, (b) goods exported or imported for processing, including transportation equipment undergoing major conversion, (c) returned exports and imports, (d) direct transit trade, and (e) goods exported or imported for rental.

(a) Storage

120. Canadian wheat may, for example, be shipped to the United States, stored there for Canadian account, and subsequently sold by Canada to the United Kingdom and shipped to that country. Since the United States never acquires ownership of the wheat, it should be excluded, in the merchandise account of a balance of payments compiled according to this Manual, from U.S. imports, and from U.S. exports when it is shipped out. It should be entered only as a Canadian export to the United Kingdom as at the time when the United Kingdom acquires ownership. Any storage charges in the United States should be entered in the U.S. balance of payments as an export of services to Canada.

(b) Processing

121. When country A exports goods without sale to country B for processing in that country, and then reimports the goods after processing, two alternative treatments are possible; the choice between them depends on the nature of the transaction. First, the gross value of the goods may be entered as exports and imports in the balance of payments of both countries. That is, country A may enter an export and subsequent reimport and country B may enter an import and subsequent re-export. This is the usual recording of such transactions in external trade statistics. Second, the gross values may be omitted from exports and imports, and the value added by processing, as indicated by the processing fee, may be entered as an export of goods [or services] from country B to country A. If country A exports goods to country B for processing and then sells them to a third country (country C), two treatments are again possible: (i) The transactions may be entered as usually recorded in external trade statistics, i.e., as an export of goods from country A to country B, and a re-export of goods from country B to country C. (ii) The transactions may be entered as an import of goods [or services] by country A from country B, equal to the value added by processing, and an export of goods from country A to country C equal to the value of the processed goods.

122. Applying the criterion of change of ownership, the procedure indicated in (i), paragraph 121, should be followed only if country B acquires ownership of the unprocessed goods. This criterion, however, cannot always be meaningfully applied, and some important cases of processing in which ownership does not in fact pass are, therefore, treated as if the processing country acquired ownership of the unprocessed good and transferred ownership of the processed good. Such imputations of a change of ownership are made where the processing transaction can be regarded, from the aspect of market relationships, as analogous to purchases by the processing country of the unprocessed goods and sales by it of the processed goods. This is the case whenever the processing contract is essentially a financing arrangement. Moreover, although any change of ownership which may occur is more or less nominal in the case of transactions that take place within a

direct investment concern, ownership of all goods shipped from one unit of such a concern to another is assumed for balance of payments purposes to follow the physical movement. Therefore, all international shipments of goods for processing within a direct investment concern, including the important case of shipments of crude oil for refining, should be treated as purchases and sales of merchandise. When a change of ownership is not imputed, the gross movements of merchandise shipped for processing without a change of ownership should be eliminated from the balance of payments and the value added in processing should be entered instead; see paragraph 151(l) and paragraph 152(i). It is not, however, always possible in practice to determine whether exports and imports recorded in external trade statistics refer to processing arrangements; the balance of payments is, therefore, likely to include on a gross basis a larger number of processing transactions than indicated by the principles outlined here. A related case is that of goods shipped for repair. For such transactions only the service of repair should be entered (in Table IV, item 3.2 or 8.2, for ships and other transportation equipment, and in Table VIII, item 2.12, for other goods).

(c) Returned exports and imports

123. Returned exports and imports should, in principle, be treated as if no change of ownership, i.e., no merchandise transaction, had ever occurred. This means, first, that goods exported in one period and returned in a later period should be entered as an increase and subsequent decrease in stocks of goods of domestic origin held abroad by the compiling country, and second, that goods imported in one period and returned in a later period should be entered as an increase and subsequent decrease in stocks of goods of foreign origin held in the compiling country by foreigners (see "timing adjustments," paragraphs 133-34, and note to items 6.1 and 6.2, paragraph 154). Furthermore, if a cash payment is in fact made for goods subsequently returned and a refund given upon the return, the payment and refund should be entered in the capital account as a prepayment and subsequent repayment. In most cases, this treatment is difficult to apply in practice, since it involves adjusting merchandise transactions in one period for shipments occurring in a later period. Consequently, this Manual provides for a simplified treatment: goods returned in a given period are deducted only from exports and imports of that period; no adjustments are made to exports and imports of earlier periods or to stocks, and no entries are made in the capital account (see note to item 5.2, paragraph 152(g)). This simplified treatment approximates that required in principle if the amounts of returned goods remain about the same from period to period.

(2) Transactions in goods not passing customs frontiers

124. Exports and imports in the merchandise account include the following transactions in goods that may not cross the customs frontier of the compiling country: (1) fish and other marine products caught and sold abroad directly by the compiling country's fishing fleet, (2) purchases and sales of ships and other carriers, and (3) goods purchased in one foreign country by the compiling country's government for its own use in another foreign country. These transactions are included in the exports and imports of the compiling country to ensure symmetry between the merchandise accounts of exporting and importing countries.

125. All other transactions in goods that do not pass the customs frontier of the compiling country are excluded from exports and imports in the merchandise account. (1) Goods purchased and consumed abroad by residents of the compiling country, and goods purchased and consumed by foreigners in the compiling country, are entered elsewhere in the goods and services account. For example, goods purchased and consumed abroad by the compiling country's tourists are included in Table V and those by its diplomatic and military personnel abroad are included in Table VII. (2) Merchandise transactions abroad, i.e., goods purchased from one foreign country and sold or transferred as gifts to another foreign country, or even to the country where purchased, are treated as follows: when goods are purchased and sold abroad, the gross purchases and sales are not included in exports and imports, but the balance on such transactions, mainly profit, is entered in item 1.2, other merchandise (net), of Table A, to make the total values of world exports and imports equal. When goods are purchased abroad and transferred as gifts to foreign countries, the expenditures for the purchases are entered as transfer payments in Tables IX or X.

(3) Adjustments to exports and imports

126. Items 1-7 of Table I show how exports and imports (item 1.1 of Table A) can be derived from basic data on merchandise trade. These basic data will be either a record of export and import shipments, such as that compiled by the customs authorities and hereinafter called the trade returns, or a record of monetary receipts and payments through the domestic banking system, such as that compiled by the exchange control authorities and hereinafter called the exchange record. The adjustments needed to make the basic data on trade conform to the definition of exports and imports used in this Manual fall under three headings: (a) valuation, (b) coverage, and (c) timing; these adjustments are made in items 2 and 4, item 5, and item 6, respectively, of Table I.

(a) Valuation adjustments

127. Both exports and imports should be entered at transactions values at a uniform boundary, namely, at the customs frontier of the exporting country (f.o.b.). For imports, the exporting country should generally be the country of first consignment, as it is defined below in the General Note to Table B (paragraph 461). For countries unable to enter imports f.o.b., provision is made for entering them c.i.f. (cost, insurance, and freight) at the customs frontier of the importing country. Although "f.o.b." stands for "free on board," this term should not be interpreted as including costs of loading borne by the international carrier. Such costs are included either in item 3 of Table A as part of freight (for exports transported in domestic carriers and imports transported in foreign carriers), or in item 4, other transportation, as part of port expenditures (for exports transported in foreign carriers and imports transported in domestic carriers). The exclusion of loading costs borne by the international carrier from the f.o.b. value of merchandise is in accordance with the data from which external trade statistics are complied, and is necessary for balance of payments purposes to avoid duplication between the merchandise and other goods and services accounts.

128. As a rule, countries record exports f.o.b. in trade returns, but imports are recorded f.o.b. by some countries and c.i.f. by other countries. Exchange record data may mix f.o.b. and c.i.f. valuations according to the terms of the contracts under which goods are bought and sold. Item 2 covers the adjustments needed to bring the basic data to a uniform valuation. Items 2.1 and 2.2 provide for adding freight and insurance within the exporting country not included in the declared values, and items 2.3 and 2.4 provide for the elimination of international freight and insurance, which are included in Table III insofar as they are appropriate to the balance of payments. Alternatively, if imports are to be entered on a c.i.f. basis, items 2.3 and 2.4 may be used to add international freight and insurance to imports entered on a mixed f.o.b. and c.i.f. basis.

129. For commercial exports and imports, the transactions value is the contract value. If no contract value is specified (e.g., in the case of goods shipped between parent companies and foreign branches or subsidiaries) and for noncommercial exports and imports, i.e., transfer payments in kind, the goods should be valued at an imputed contract value based on international market prices adjusted to a basis f.o.b. the exporting country. If an international market price cannot be obtained, the transactions value may be estimated as the cost to the provider for currently produced goods or the resale value in the provider's country for previously produced goods, e.g., surplus property (see paragraphs 98-99).

130. Item 4 of Table I constitutes the adjustment necessary to bring the basic data to a transactions value basis; it applies mainly to trade returns statistics. The value of exports or imports recorded in trade returns may not be the amount actually paid according to the contract. For example, certain elements such as export duties may be omitted, or customs procedure may require the use of some foreign or domestic price other than the contract price at which the transaction was in fact carried out.

131. Some exports and imports, e.g., transactions between a parent company and its foreign subsidiaries, may be declared to customs at nominal values; such values should be replaced by imputed transactions values of the goods at the frontier of the exporting country estimated from market prices. In cases where no international payment is made (e.g., reparations in kind), the valuation in the trade returns may also have to be adjusted to an imputed transactions value.

(b) Coverage adjustments

132. Trade returns may exclude re-exports and certain types of goods such as silver and parcel post. An exchange record may exclude merchandise that is not paid for at all, e.g., gifts, and also merchandise that is not paid for through the domestic banking system, e.g., goods paid for by debit or credit to intercompany accounts. When such transactions should be included in item 1.1 of Table A, they should be entered by the compiling country in item 5.1, additions, of Table I. On the other hand, the basic data may record transactions in goods that are either not appropriate to the balance of payments or are to be entered elsewhere than as exports and imports. All such transactions should be entered in item 5.2, deductions. The exact coverage of exports and imports is described in the notes to items 5.1 and 5.2 of Table I (paragraphs 151-52).

(c) Timing adjustments

133. Exports and imports are entered as at the time at which ownership changes. For the purposes of this Manual, the time at which exports change ownership is taken to be the time when the exporter ceases to carry the goods on his books as a real asset and makes a corresponding change in his financial assets or liabilities; the time at which imports change ownership is the time when the importer enters the goods on his books as a real asset and makes a corresponding change in his financial assets or liabilities. This timing of the change in ownership of goods is adopted to make the merchandise account of a country's balance of payments as consistent as possible with its capital account. It also eliminates most timing discrepancies between the merchandise account of the exporting country and that of the importing country,

134. Timing adjustments, item 6, Table I, are necessary because the time at which ownership of goods changes may differ from the time at which transactions are recorded in the basic data. Trade returns record transactions at the time the movement of the goods takes place and exchange records show the time at which receipts and payments are made.

135. Adjustments to trade returns for changes in stocks are made in items 6.1 and 6.2, to allow for movements across customs frontiers of goods whose ownership has either changed earlier or has yet to change. The stocks of goods covered by these items are those held directly (or through agents) by residents of the compiling country but located outside its customs territory and bonded warehouses (stored abroad, en route, or in domestic territory outside customs, e.g., in free ports) and those held directly (or through agents) by foreigners but located within the compiling country (either inside its customs territory or in its bonded warehouses). Stocks of goods held by residents indirectly through branches and subsidiaries of the compiling country's enterprises are treated as owned by foreigners, and goods held by foreign-owned branches and subsidiaries in the compiling country are treated as held by residents. All such goods are considered to be owned directly by the branches and subsidiaries as part of their real assets, in which the parent companies have a financial equity.

136. When the basic data are taken from exchange records, adjustments are entered in item 6.3 or 6.4 (trade credits extended or received) for prepayments and postpayments of exports and imports, i.e., for receipts and payments for goods that have not yet changed ownership and for goods changing ownership before payment is made. Changes in trade credits received or extended should be entered in the capital account (see paragraph 155).

(4) Net balance on merchandise transactions abroad

137. By definition, items 6.1 and 6.2 exclude changes in stocks which are not to be entered as exports or imports of merchandise. The most important example refers to stocks arising from merchandise transactions abroad conducted by residents of the compiling country (see paragraph 125). The net balance of such transactions, which is entered in item 8, includes the profit on the transactions as well as the changes in stocks (see paragraph 157). This balance must be added to exports to make world exports equal world imports.

TABLE I. MERCHANDISE TRANSACTIONS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Credit	Debit
1. Trade as reported in ________ (exports____, imports____)		
2. Adjustments for uniform valuation basis (2.1 through 2.4)		
2.1. Internal freight		
2.2. Internal insurance		
2.3. International freight		
2.4. International insurance		
3. Exports f.o.b., imports ____(1 plus 2)		
4. Other valuation adjustments		
5. Coverage adjustments (5.1 plus 5.2)		
5.1. Additions		
5.2. Deductions (enter with minus sign)		
6. Timing adjustments (6.1 plus 6.2 or 6.3 plus 6.4)		
6.1. Domestically owned stocks held abroad *		
6.2. Foreign-owned stocks held in compiling country*		
6.3. Trade credits extended †		
6.4. Trade credits received †		
7. Total adjusted exports f.o.b., imports ___ (3 through 6 = Table A, item 1.1)		
8. Merchandise transactions abroad (Table A, item 1.2)		xxx

* For trade data based on trade returns.

† For trade data based on exchange records.

NOTES TO ITEMS IN TABLE I

138. In this table, exports and adjustments to exports should be entered in the credit column; imports and adjustments to imports in the debit column.

Item 1: Trade

139. This item should cover the unadjusted basic data on trade as recorded in external trade statistics or exchange records. Indicate whether entries are on an f.o.b. or a c.i.f. basis.

Item 2: Adjustments for uniform valuation basis

140. This item should be used when adjustments are necessary to bring the basic data in item 1 to a uniform valuation basis, usually f.o.b. the customs frontier of the exporting country for both exports and imports. Internal freight and insurance to the frontier of the exporting country should be added to the basic trade data, and international freight and insurance should be deducted, to derive the f.o.b. values. When imports in basic exchange records are valued partly f.o.b. and partly c.i.f., it occasionally may be more feasible statistically to adjust them to a common c.i.f. basis than to an f.o.b. basis. For this adjustment, international freight and insurance have to be added.

Items 2.1 and 2.2: Internal freight and internal insurance

141. These costs should be added when exports or imports in the basic data are valued at some interior point of the exporting country, and deducted when valued at an interior point of the importing country.

Items 2.3 and 2.4: International freight and international insurance

142. Any element of international freight and insurance included in the basic data for exports should be deducted. This deduction is likely to be necessary only when the basic data are taken from exchange records and the exports are paid for under c.i.f. contracts. Any international freight and insurance included in the recorded value of imports should be deducted whenever data permit the entry of imports f.o.b. This deduction may apply both to data based on trade returns and to data based on exchange records. However, when exchange record data for imports on a mixed valuation basis have to be adjusted to c.i.f. rather than f.o.b. values, international freight and insurance have to be added.

143. Items 2.3 and 2.4 constitute valuation adjustments, not balance of payments entries comparable to entries for freight and insurance in Tables III.A and III.B. They therefore cover all international freight and insurance included in the trade data, whether paid to residents or to foreigners. Freight and insurance on exports earned by residents of the compiling country should be entered as credits in Tables III.A and III.B, respectively, but such earnings by foreigners should be omitted from the balance of payments. When imports are recorded f.o.b., freight and insurance on imports earned by foreigners should be entered as debits in Tables III.A and III.B, respectively, but such earnings by residents should be omitted from the balance of payments; when imports are recorded c.i.f., freight and insurance earned by residents should be included as credits, but such earnings by foreigners should be omitted. (See General Note to Tables III.A and III.B, paragraphs 202-03.)

Item 3: Exports f.o.b. and imports

144. This item is the sum of items 1 and 2. If imports in item 1 are recorded c.i.f. and the data needed to convert them to an f.o.b. basis (items 2.3 and 2.4, debit) are not available, or if imports in item 1 are on a mixed valuation basis and can be adjusted to uniform values only on a c.i.f. basis, the c.i.f. value should be entered here.

Item 4: Other valuation adjustments

145. This item should be used when the basic data are not valued at international transactions prices. The adjustments which may need to be entered here include the following:

(a) *Duties and subsidies.* If the values of exports and imports in the basic trade data are based on domestic market prices in the exporting country, export duties levied by the exporting country should be added, and export subsidies paid by the exporting country deducted. If imports are valued in the basic trade data on the basis of domestic market prices in the importing country, domestic subsidies paid by the importing country should be added and import duties levied by the importing country deducted. In some cases, fees are payable by exporters to the consulates of the importing countries' governments and these fees are recovered through the sale price of the goods. Such fees are, in effect, an import duty levied by the importing country, i.e., an internal tax in that country, and should as such be excluded for balance of payments purposes from the value of exports and imports.

(b) *Trade of direct investment companies.* The value of trade between parent enterprises and their branches and subsidiaries may need to be corrected from nominal book values to imputed transaction values (see paragraph 129).

(c) *Export and import agents' fees.* In principle, fees and commissions paid by exporters and importers to foreign brokers and agents should be treated as services rendered by the brokers or agents to the exporters and importers and entered in Table VIII. Thus, fees paid to foreign agents by exporters should not be deducted from the f.o.b. value of merchandise. When the entries in

Table I are based on exchange records, and export agents' fees are paid out of export proceeds in foreign currency, these fees should be entered in item 4 and an offsetting debit entry should be made in Table VIII. Amounts retained as fees by agents of foreign exporters in the compiling country should be reported in the debit column of item 4; an offsetting credit entry should be made in Table VIII. Fees and commissions paid by importers to agents abroad should be excluded from the f.o.b. value of merchandise. Any fees paid by foreign importers to agents in the compiling country which are included in the basic export data in Table I should be deducted in item 4 (credit) and entered as a credit in Table VIII. Any fees paid to foreign agents by importers in the compiling country which are included in the basic import data in Table I should be deducted in item 4 (debit) and entered as a debit in Table VIII.

(d) *Consignment trade.* Such trade is often declared to customs or paid for at preliminary values, pending determination of the final sales price. The value recorded in the trade returns should be corrected to the final f.o.b. price received by exporters or paid by importers. When the exchange record is used for basic trade data, gross payments and receipts in final settlement of consignment trade should be entered in the merchandise account. Data on consignment trade are also likely to require adjustment for timing, particularly when they are derived from customs returns.

(e) *Rebates, etc.* Payments by exporters to foreigners of rebates, discounts, compensation for damaged goods, etc., should be entered as negative credits, i.e., deductions from exports, and such receipts from foreign exporters should be entered as negative debits, i.e., deductions from imports.

(f) *Newly printed paper money, etc.* The valuation of commercial exports and imports of newly printed paper money, stocks, bonds, etc., and newly minted coin may need to be corrected from face values to transactions values.

(g) *Export proceeds retained in foreign currency.* Exchange record data may fail to cover part or all of export proceeds retained abroad in foreign currency accounts. Where part of the proceeds is so retained, the amount retained should be entered in item 4. If the whole export proceeds are so retained abroad by an exporter, they should be entered in item 5.1 (see note to that item, paragraph 151(i)).

(h) *Revaluation of noncommercial trade.* When noncommercial trade is included in the trade returns, it may be necessary to enter in item 4 the difference between the valuation in the trade returns of goods transferred as grants or reparations and an imputed transactions value (see General Note to Table I, paragraph 130).

Item 5: Coverage adjustments

146. The coverage of exports and imports in the merchandise account in this Manual is broadly the same as that of "general exports and imports" in external trade statistics. "General exports" comprise: (1) domestic (sometimes called national) exports, consisting of outward movements of

merchandise produced entirely in the compiling country or manufactured in the compiling country using imported goods, and (2) an outward movement termed "re-export," consisting of goods imported and moved out again without any processing beyond cleaning, sorting, packaging, and labeling. "General imports" comprise inward movements of merchandise (1) directly for consumption, (2) for re-export, and (3) into storage under customs control pending determination of its final disposition. Goods in direct transit, i.e., goods moving through the country for purposes of transport only, are excluded from external trade statistics.

147. Many countries record in their trade statistics for outward movements of goods either (1) domestic exports (described above), or (2) "special" exports, consisting of the outward movement of (a) domestic goods and (b) nationalized goods (i.e., foreign goods cleared by customs for domestic consumption and subsequently re-exported without having been transformed). For balance of payments purposes export data of those types must be adjusted by entering other re-export transactions.

148. For inward movements of goods, many countries record "special imports" consisting of goods either entered directly or withdrawn from storage under customs control for domestic use or transformation. Data of this type must be adjusted to cover entries into, rather than withdrawals from, storage under customs control (hereinafter referred to as entries into, and withdrawals from, bonded warehouses).

149. With the exceptions noted in paragraph 152, the merchandise account in this Manual includes (1) exports of merchandise produced entirely in the compiling country and of merchandise manufactured in the compiling country from imported goods; (2) re-exports, i.e., merchandise that has been imported by residents and before resale to foreigners has undergone only such minor processes as cleaning, sorting, packaging, and labeling; (3) direct imports of merchandise, i.e., not through bonded warehouses, for domestic use (frequently referred to in external trade statistics as imports for consumption); (4) direct imports for re-export; and (5) imports into bonded warehouses for subsequent domestic use or re-export. Re-exports and imports for re-export include merchandise passing through bonded warehouses, but not goods in direct transit.

150. Listed below are types of merchandise transactions that are often not recorded in basic data on trade but should be included in the merchandise account of this Manual (to be entered, when necessary, in item 5.1); and types of merchandise transactions that are often recorded in the basic data but are either not balance of payments transactions or should not be included in the merchandise account of this Manual (to be deducted, when necessary, in item 5.2). The items added or deducted should be entered on the same valuation basis as the data in item 3.

Item 5.1: Additions

151. The following items should be entered if they are not already recorded in the basic data on trade and if they involve a change of ownership between residents and foreigners.

(a) *Re-exports and imports for re-export.* Imports for re-export should include all entries into bonded warehouses less withdrawals for domestic use, and re-exports should include all withdrawals from bonded warehouses for shipment abroad.

(b) *Silver bullion, demonetized coins of any metal other than gold, and newly minted coins, other than gold coins, not yet circulating.* Coin in current circulation is treated as a capital item. Silver bullion is included in the merchandise account even when silver constitutes monetary reserves of the compiling country.

(c) *Parcel post.*

(d) *Fish and other marine products*: viz., fish, etc., caught by domestic vessels and sold to foreign countries without passing domestic customs frontiers.

(e) *Ships and aircraft:* transfers of ownership of ships and aircraft.

(f) *Livestock driven across customs frontiers* (if ownership changes between residents and foreigners).

(g) *Electric power, gas, and water.* By convention these are treated as merchandise trade rather than as a service item.

(h) *Government imports,* including military equipment and goods purchased in one foreign country for use by the government in another foreign country.

(i) *Commercial merchandise not paid through the domestic banking system.* This includes barter; goods transferred between parent enterprises and their branches or subsidiaries against credits or debits to intercompany accounts, including goods transferred for processing; other goods exported or imported under foreign loans or credits; goods for which the export proceeds are retained 100 per cent in foreign currency; and imports paid with foreign assets, including retained foreign currency accounts. These additions may be necessary when the basic data are taken from exchange records. If part (less than 100 per cent) of export proceeds is retained in foreign currency and therefore not recorded in the exchange records, this unrecorded part should be entered in item 4 (see note to that item, paragraph 145(g)).

(j) *Noncommercial merchandise, mainly grants and reparations in kind.* . Like other merchandise trade, noncommercial merchandise should exclude gold and include goods from both current production and existing capital equipment. Grants and reparations should be valued at an imputed transactions value (see General Note to Table I, paragraph 129).

(k) *Imports lost, destroyed during shipment, or confiscated by the importing country's customs authorities.* When the loss is borne by the importer the goods will presumably be recorded in the exporting country's data, and they should be entered as debits by the importing country in item 5.1. Lost or destroyed exports of the compiling country when the exporter in the compiling country bears the loss should be deducted in item 5.2 (see note to that item, paragraph 152(h)). Compensation paid by exporters to importers for damaged goods should be entered in item 4 (see note to that item, paragraph 145(e)). Compensation paid by an insurance company should be entered in Table III.B.

(l) *Processing fees, etc.* For goods deducted under item 5.2 (see note to that item, paragraph 152(i)), processing fees should be added. For any such goods exported for processing and subsequently sold abroad in processed form, the sale of the processed good should also be entered here in the credit column.

(m) *Miscellaneous:* transactions value of newly printed paper money, stocks, bonds, etc.; estimates for undetected smuggled goods; goods shipped by air; trade in precious stones, especially diamonds; imports of goods incorporated or used up in construction projects and contractor's equipment sold locally after use on a project (see paragraph 305); and unrecorded shipments, e.g., those of less than a stated minimum value.

Item 5.2: Deductions

152. The following items should be deducted if they are included in the basic data on trade.

(a) *Direct transit trade:* foreign goods passing through domestic territory for purposes of transport only and for which there is no change of ownership, e.g., goods on through bills of lading and goods temporarily stored for foreign account.

(b) *Gold* (coin, bullion, and unrefined and partly worked gold). Gold transactions should be entered in Table II(a) or Table II(b).

(c) *Shipments to military and diplomatic establishments:* i.e., exports to domestic military forces and diplomatic missions abroad, and imports by foreign military forces and diplomatic missions in the compiling country. (The former are transactions between residents and the latter transactions between foreigners; neither should be included in the balance of payments.)

(d) *Travelers' purchases:* i.e., purchases of goods for their own use by residents traveling abroad and similar purchases by foreigners traveling in the compiling country, which are included in Table V; and purchases by government employees stationed abroad, e.g., diplomats and troops, and similar purchases by foreigners in the compiling country, which are included in Table VII (see notes to that table, paragraphs 263, 271-73, and 285).

(e) *Ship's stores:* i.e., sales of bunker fuel and other stores to foreign-operated vessels and aircraft; and purchases of bunker fuel and other stores from foreigners by domestically operated vessels and aircraft. These cannot usually be separated from other port expenditures in transportation estimates and should therefore be entered in Table IV.

(f) *Goods exported or imported for rental:* e.g., motion-picture films and business machines. (Receipts and payments for rentals are included in Table VII or Table VIII.)

(g) *Returned exports and imports* (see General Note to Table I, paragraph 123). The adjustments required if the simplified treatment is used are as follows: If the basic data in item 1 of Table I are taken from trade returns and include returned exports and imports, the amount for returned exports should be deducted in item 5.2 in both the credit and debit columns, i.e., from *both* exports and imports, and, similarly, the amount for returned imports should be deducted in both the credit and debit columns. If the basic data in item 1 are taken from exchange records, this deduction will be needed only if goods are returned after a cash receipt or payment has taken place and a refund is therefore involved. Refunds paid on account of returned exports should be deducted in item 5.2 (credit) and refunds received on account of returned imports should be deducted in item 5.2 (debit).

(h) *Exports lost, destroyed during shipment, or confiscated by the importing country's customs authorities:* when the loss is borne by the exporter, see note to item 5.1, paragraph 151(k).

(i) *Goods for processing:* i.e., goods exported or imported for processing which do not change ownership, either actually or by imputation (see General Note to Table I, paragraph 122), should be deducted in this item. Normally this adjustment will apply to trade returns data. Goods exported for processing for the compiling country's account and goods re-exported after processing for foreign account should be deducted in the credit column. Goods imported for processing for foreign account and goods reimported after processing abroad for the compiling country's account should be deducted in the debit column.

(j) *Goods temporarily exported and imported, not for sale:* e.g., display equipment for trade fairs and exhibitions; art exhibitions; animals for breeding, show, or racing; circus, operatic, and theatrical equipment; construction equipment not used up on a project; goods imported and exported for repair (see paragraph 122).

(k) *Samples of no commercial value.*

(l) *Direct subscriptions for newspapers and periodicals:* these should be entered in Table VIII. Shipments of books and of periodicals in bulk, however, should not be deducted, since they are appropriate to Table I, item 1.

Item 6: Timing adjustments

153. This item is needed because movements of goods (as recorded in trade statistics) or payments and receipts (as recorded in exchange records) may take place at different times from the change in ownership of the goods. Additions should be made to the basic data if a change of ownership to goods takes place during the reporting period but shipment (if the basic data are taken from trade returns) or payment (if the data are taken from exchange records) takes place either in an earlier period or in a later one. Deductions should be made from the basic data if shipment or payment for goods takes place during the reporting period but the change of ownership occurs either in an earlier period or in a later one. In principle, any timing adjustments related to activ-

ities of domestic merchants should be made in item 8, not item 6. For the treatment of returned exports and imports, see General Note to Table I, paragraph 123.

Items 6.1 and 6.2: Domestically owned stocks held abroad and foreign-owned stocks held in compiling country

154. These items should be used when the basic data are taken from trade returns. Goods crossing the compiling country's customs frontier in the reporting period without an international change of ownership in that period should be deducted. Goods changing ownership internationally in the reporting period without crossing the customs frontier in that period should be added. To correct for an improper recording of freight and insurance on such goods in Tables III.A and III.B, the value of stocks entered should include all freight and insurance up to the point where the goods are located. Entries should be made in accordance with the following table:

		Entry in Table I			
Recording in Trade Returns in Period	Change of Ownership in Period	Adjustment for exports Item (credit)		Adjustment for imports Item (debit)	
Earlier	Current	6.1	+	6.2	+
Later	Current	6.2	+	6.1	+
Current	Earlier	6.2	-	6.1	-
Current	Later	6.1	-	6.2	-

Items 6.3 and 6.4: Trade credits extended and trade credits received

155. These items should be used when the basic data are taken from exchange records. Goods changing ownership internationally during the reporting period but paid for in an earlier or a later period should be added to the basic data, and payments during the reporting period for goods changing ownership internationally in an earlier or a later period should be deducted. The net adjustments in this item should be transferred to the capital account as changes in trade credits. Entries should be made in accordance with the following table:

		Entry in Table I				Entry in Table XII, Column 5			
		Adjustment for exports		Adjustment for imports		Adjustment for exports		Adjustment for imports	
Recording in Exchange Record in Period	Change of Ownership in Period	Item (credit)		Item (debit)		Item 3	Item 6	Item 3	Item 6
Earlier	Current	6.4	+	6.3	+		-	-	
Later	Current	6.3	+	6.4	+	+			+
Current	Earlier	6.3	-	6.4	-	-			-
Current	Later	6.4	-	6.3	-		+	+	

156. Some merchandise, e.g., ships and other large items of capital equipment, are paid for in installments. The full value of such merchandise should be entered in the merchandise account at the time there is a transfer from foreign to domestic ownership or vice versa. The changes in assets and liabilities arising from the difference in timing between the installments and the transfer of ownership should be entered in the capital account (Table XII, item 3 or item 6).

Item 8: Merchandise transactions abroad

157. This item covers profits (losses minus) on the merchandise transactions abroad of the compiling country's residents (see General Note to Table I, paragraph 137) and changes in stocks of goods involved in such transactions. The item is on a net basis; all entries, whether positive or negative, should be made in the credit column. The net entry for the compiling country's merchandise transactions abroad equals the gross value of sales in foreign countries during the reporting period of commodities bought abroad less (1) any freight payments and insurance premiums accruing to residents which may be included in the value of the sales (to be entered in Tables III.A and III.B), and (2) all purchases abroad during the reporting period including any foreign services such as freight, insurance premiums, and storage costs. Receipts from insurance claims for lost goods should be entered as sales.

GENERAL NOTE TO TABLES II(a) AND II(b)

158. These tables show alternative methods for deriving the entries for nonmonetary gold, i.e., the entries for gold transactions in the goods and services account of the balance of payments; they also show the interrelationships among these entries, the output of gold from mines in the compiling country, and the net uses of gold by the nonmonetary sectors.

159. Gold may be considered as merchandise, as a foreign exchange asset, or as a domestic monetary asset. Stocks of gold held by mines and by industrial enterprises engaged in manufacturing goldware are similar to other inventories held by business, i.e., merchandise. Gold in the hands of monetary authorities is the equivalent of convertible foreign exchange reserves, because gold is accepted in the settlement of international obligations. When gold is held by private enterprises and individuals, it is often difficult to tell which of its attributes is predominant, because such gold may be held as a commodity for speculative purposes, as an alternative to foreign exchange assets, or as a domestic monetary asset.

160. The convention adopted in this Manual is to treat gold held by the compiling country's nonmonetary sectors as a domestic asset, similar to merchandise, and gold held by its monetary institutions for monetary purposes as if it were a foreign asset. On this convention, international transactions in gold by the compiling country's nonmonetary sectors are allocated to the goods and services account, and international transactions in gold by the monetary sectors are allocated to the capital account. Transactions of the compiling country's nonmonetary sectors with all foreigners are entered in nonmonetary gold, Table II(a) or II(b). Transactions of the compiling country's monetary institutions are entered in Tables XV and XVI, which cover changes in the foreign assets and liabilities of these institutions. However, Tables XV and XVI cover all changes in the monetary gold holdings of the compiling country's monetary institutions, including those arising from their transactions with the domestic nonmonetary sectors. Tables II(a) and II(b), nonmonetary gold, therefore include an offset to the domestic transactions thus included in Tables XV and XVI. Domestic transactions in gold between the monetary institutions and the rest of the economy are included in the two monetary gold items because domestic purchases and sales of gold by the monetary institutions increase or decrease their gold reserves. When the nonmonetary sectors sell gold to the monetary institutions, the effect on the balance of payments and international reserves is the same as if the gold were exported privately (credit to nonmonetary gold) and the proceeds turned over to the monetary institutions, which in turn used them to acquire gold (debit to one of the items for monetary gold). A converse effect occurs when the monetary institutions

sell gold to the nonmonetary sectors. Since the domestic transactions between the monetary institutions and the rest of the economy are mutually offsetting, the net balance of nonmonetary and monetary gold reflects solely international gold transactions.

161. The following table illustrates the way in which the various types of gold transaction are treated in the balance of payments. The domestic transactions included involve two entries in the gold items, a credit and a debit, whereas the transactions with foreign countries involve only one such entry.

Gold Transactions	Items in Table A
Domestic production sold to	
Nonmonetary sectors	No entry
Monetary sectors	Item 2, credit; item 15.6 or 16.5, debit
Foreign countries	Item 2, credit
Existing gold sold by	
Nonmonetary sectors to	
Nonmonetary sectors	No entry
Monetary sectors	Item 2, credit; item 15.6 or 16.5, debit
Foreign countries	Item 2, credit
Monetary sectors to	
Nonmonetary sectors	Item 15.6 or 16.5, credit; item 2, debit
Monetary sectors	No net entry*
Foreign countries	Item 15.6 or 16.5, credit
Foreign countries to	
Nonmonetary sectors	Item 2, debit
Monetary sectors	Item 15.6 or 16.5, debit

*The gross entries are a credit to item 15.6 and a debit to item 16.5, or a debit to item 15.6 and a credit to item 16.5.

162. In accordance with this scheme, a transaction in gold with a foreign country is classified as nonmonetary (item 2) if it is carried out by the nonmonetary sectors of the compiling country, and as monetary (item 15.6 or 16.5) if it is carried out by its monetary institutions. In the balance of payments of the country in which the foreign party to the transaction is a resident, the classification of the transaction will also depend on the sector of that country which carries it out. For example, a transaction by a nonmonetary sector of country A with a monetary institution in country B will be nonmonetary for country A and monetary for country B. It follows that while for all countries gold transactions involve equal credits and debits, i.e., conceptually add to zero, this is true for the monetary and nonmonetary gold items combined, but not for each item taken separately. The net total of the nonmonetary gold transactions of all countries is equal to the net total transactions of all monetary institutions with all nonmonetary sectors. This sum in turn is equal to the net total of monetary gold transactions for the world as a whole, i.e., to the net addition to or subtraction from the gold reserves of all monetary institutions. Each country's credit

or debit for nonmonetary gold may be regarded as its net positive or negative contribution to the net increase in world gold reserves so defined. A positive contribution results from new gold production and recovery of gold from industry, the arts, and hoards; a negative contribution results from uses in industry and the arts and from hoarding.

163. The general description given above of the treatment of gold transactions needs to be qualified and expanded. As with changes in foreign exchange holdings, changes in monetary gold holdings are recorded in Tables XV and XVI at the par value (see Notes to Items in Tables XV and XVI, paragraph 430). The deviation, if any, of the value of the monetary sector's gold transactions from their value at par is allocated to nonmonetary gold. This means that transactions of the compiling country's monetary institutions with the domestic nonmonetary sectors are, in effect, entered in monetary gold (Table XV or XVI) and offset in nonmonetary gold (Table II(a) or II(b)) at the par value of the reporting unit rather than at actual transactions value, and also that the international transactions of these institutions are entered at par value in Tables XV and XVI. The recording of the domestic transactions in gold at par implies that they are regarded as being analogous to international transactions to that extent only; any difference between transactions value and par value is treated as a purely domestic transaction, e.g., as an indirect tax or subsidy, or as a trading profit or loss. For international transactions in gold, the treatment of a deviation from par is in principle the same as for international profits and losses on foreign exchange dealings (e.g., the profits from foreign exchange arbitrage). Although the former is included in Table II(a) or II(b) and the latter in Table VIII, item 2.12, both are entered in the goods and services account.

164. Monetary gold is defined as refined gold held by monetary institutions for monetary purposes; changes in other gold holdings, if any, of such institutions are entered in nonmonetary gold. However, monetary gold excludes the stocks of mines and refineries owned by monetary institutions, since these are treated as part of the private sector. Nonmonetary gold covers not only refined gold held by the nonmonetary sectors but also the gold content of goldware, provided that the value of the gold content is 80 per cent or more of the total value, and the gold content of ore.

165. The gold content of ore is included in the calculation of nonmonetary gold because if, instead, gold ore were entered as merchandise in Table I, the full value of the refined gold would be credited to nonmonetary gold in the balance of payments of the country in which it is refined, and none of the value would be credited to nonmonetary gold in the balance of payments of the country in which it is mined but not refined, although the latter country contributes a portion of the value of the refined gold. The procedure adopted ensures that the credit attributed to each country is equal to the value added by each.

166. Even though freight and insurance on gold shipments usually account for a very low percentage of the gold's value, a principle for the treatment of freight and insurance is required to determine the valuation basis of the various items in Tables II(a) and II(b). This is particularly significant for the recording of transactions in gold ore. The principle applied to merchandise transactions, which is to value both exports and imports f.o.b. the exporting country and to treat

all freight as paid by the importer, is not applicable to all gold transactions. This principle implies that in the course of the transfer of a commodity from country to country, freight and insurance are added to the value of the commodity. This implication seems unrealistic for refined gold. Such gold may be shipped many times between countries in a succession of international monetary settlements or may be moved without a change of ownership, e.g., a central bank may ship gold to its earmarked stocks abroad and subsequently reimport it. In neither of these cases do the freight and insurance costs add to the value of the gold. For this reason, the rule adopted for valuing transactions in *refined* gold in Tables II(a) and II(b) is that a transaction in refined gold should be valued at the amount paid by the purchaser to the seller for the gold at its delivery point under the terms of the sale. Freight and insurance on refined gold are treated as a transaction between the party for whose account the gold is moved and the carrier or insurance company, and are entered in Table III.A or III.B. For *unrefined* gold, on the other hand, the f.o.b. valuation should be used. Freight and insurance on unrefined gold are treated as paid by the importing country and are entered in Table III.A or III.B; consequently, the corresponding increase in the value of the gold is treated as added in the refining country in the calculation of the entries for nonmonetary gold (see note to item 2 of Table II(a), paragraph 173, and to item 4.1 of Table II(b), paragraph 185).

167. The entry for nonmonetary gold can be derived either directly or indirectly. When the direct method is followed, the entry is calculated from the net transactions of the nonmonetary sectors with foreigners and with the domestic monetary institutions, adjusted for the deviation from par of the net transactions of these institutions with residents and foreigners. This method is set out in Table II(a). When the indirect method set out in Table II(b) is followed, the entry is the balance of (i) the net international transactions in gold at transactions value and (ii) the change at par value in the monetary gold holdings of monetary institutions, with sign reversed. The two calculations yield the same result, but in some countries the first method may be more convenient, and in others, the second.

168. The method of Table II(a) has the advantage of showing directly the components of the entry for nonmonetary gold arising from international and domestic transactions. It is, therefore, conceptually simpler than the indirect method, and presumably also easier to apply in practice when a record is kept of the international and domestic transactions entering the calculation. When this is not the case, the indirect method of Table II(b) must be used.

169. The last three items in both tables (items 10, 11, and 12 of Table II(a) and items 8, 9, and 10 of Table II(b)) show the relation between nonmonetary gold, on the one hand, and mine output and the net nonmonetary uses of gold, on the other. Since the last two items in each table are not defined, as are the preceding ones, in terms of inter-sector transactions to which specific values can be assigned, the tables provide only for quantity entries in these items. Although hoarded gold is not treated like a foreign asset, movements into and out of hoards sometimes show a behavior similar to that of capital movements in the balance of payments, and in such cases it may be useful for purposes of analysis to distinguish such movements and to combine them with capital. To facilitate this approach, provision is made in these tables for entering movements into and out of hoards separately within the total of net nonmonetary uses.

TABLE II(a). NONMONETARY GOLD

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Thousands of Fine Ounces		Value	
	Credit	Debit	Credit	Debit
Transactions of Nonmonetary Sectors				
1. International sales (credit) and purchases (debit) of refined and unrefined gold				
2. International receipts (credit) and payments (debit) of refining fees	xxx	xxx		
3. Domestic sales to (credit) and purchases from (debit) monetary sectors of refined gold				
4. Net transactions of nonmonetary sectors (balance of items 1, 2, and 3)				
Adjustments for Deviations from Par of Transactions of Monetary Sectors				
5. International sales (credit) and purchases (debit) of refined gold				
6. Domestic sales to (credit) and purchases from (debit) nonmonetary sectors of refined gold				
7. Change in monetary gold holdings at transactions value (balance of items 5 and 6)				
8. Change in monetary gold holdings at par value (increase, credit; decrease, debit)	xxx	xxx		
9. Deviation of item 7 from par (balance of items 7 and 8)	xxx	xxx		
10. Nonmonetary gold (balance of items 4 and 9 and of items 11 and 12 = Table A, item 2)				
Sources (credit) and Uses (debit) of Nonmonetary Gold				
11. Mine output		xxx	xxx	xxx
12. Net uses (balance of items 12.1–12.4)			xxx	xxx
12.1. Arts and industry			xxx	xxx
12.2. Mine inventories			xxx	xxx
12.3. Refiners' and dealers' inventories			xxx	xxx
12.4. Hoards			xxx	xxx

TABLE II(b). NONMONETARY GOLD

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Thousands of Fine Ounces		Value	
	Credit	Debit	Credit	Debit
1. Exports (1.1 plus 1.2)		xxx		xxx
1.1. Refined gold		xxx		xxx
1.2. Unrefined and partly worked gold		xxx		xxx
2. Imports (2.1 plus 2.2)	xxx		xxx	
2.1. Refined gold	xxx		xxx	
2.2. Unrefined and partly worked gold	xxx		xxx	
3. Net exports (credit) or net imports (debit) (balance of items 1 and 2)				
4. Change in gold held abroad: increase, debit; decrease, credit (4.1 plus 4.2)				
4.1. Refined gold				
4.2. Unrefined and partly worked gold				
5. Change in gold held by foreigners in compiling country: increase, credit; decrease, debit (5.1 plus 5.2)				
5.1. Refined gold				
5.2. Unrefined and partly worked gold				
6. Net foreign transactions at transactions value (balance of items 3, 4, and 5)				
7. Change in monetary gold holdings at par value (increase, credit; decrease, debit)				
8. Nonmonetary gold (balance of items 6 and 7 and of items 9 and 10 = Table A, item 2)				
Sources (credit) and Uses (debit) of Nonmonetary Gold				
9. Mine output		xxx	xxx	xxx
10. Net uses (balance of items 10.1 – 10.4)			xxx	xxx
10.1. Arts and industry			xxx	xxx
10.2. Mine inventories			xxx	xxx
10.3. Refiners' and dealers' inventories			xxx	xxx
10.4. Hoards			xxx	xxx

NOTES TO ITEMS IN TABLES II(a) AND II(b)

170. All transactions in gold and related gold-refining transactions between residents and foreigners, and between the nonmonetary sectors of the compiling country and its monetary institutions, are included in these tables. The change in monetary gold holdings should be entered at par, but other entries for transactions in refined gold should be entered at the values at which they were actually carried out, i.e., the amounts paid by the purchaser to the seller for the gold at its delivery point. However, when book values or par values are approximately equal to transactions values, they may be used if entries can be made more conveniently on that basis. Transactions in unrefined gold, like merchandise, should be valued uniformly f.o.b. the exporting country. This value may be estimated from the market value of refined gold in the importing country less freight, insurance, and cost of refining.

171. All unrefined gold is treated as held by the nonmonetary sectors. Gold acquired by monetary institutions from refineries that they own is treated as gold purchased by the monetary sectors from the nonmonetary sectors, since all refineries as well as mines are treated as part of the nonmonetary sectors.

TABLE II(a)

Item 1: Nonmonetary sectors' international sales and purchases of gold

172. This item covers all transactions in refined and unrefined gold of the compiling country's nonmonetary sectors with foreigners. It includes all the compiling country's sales to (credit), or purchases from (debit), foreigners of unrefined gold.

Item 2: Refining costs

173. This item covers the difference between the estimated f.o.b. value of unrefined gold in the exporting country and the market value of the refined gold in the refining country. It thus includes, in addition to refining costs proper, international freight and insurance on unrefined gold

whether paid to residents or foreigners. (See General Note to Tables II(a) and II(b), paragraph 166.) Refining costs paid by a government institution are treated as paid by the nonmonetary sector.

Item 3: Nonmonetary sectors' domestic sales and purchases of gold

174. In addition to regular transactions in refined gold, this item should include the cost of gold added to the monetary sectors' holdings from mines or refineries owned by monetary institutions (credit).

Item 6: Monetary sectors' domestic sales and purchases of gold

175. The entries in this item should equal those in item 3 but with opposite sign.

Item 8: Change in monetary gold holdings at par value

176. This item is intended to eliminate from the calculation of nonmonetary gold the entries for gold transactions that are appropriate to the capital account. It covers the net change in the monetary sectors' gold holdings (i.e., the net transactions of the monetary sectors valued at par), as shown in the capital account (Tables XV and XVI), but with opposite sign. As in the capital account, item 8 excludes restitutions of gold to rightful owners and gains or losses resulting from revaluations of gold holdings.

Item 9: Deviation of item 7 from par

177. Since items 7 and 8 cover the same transactions, but have opposite signs, this entry will reflect the difference between transactions value and par value. The amount by which the payments by monetary institutions exceed the par value of the gold purchases should be entered as a debit, and an excess of the par value over the amounts paid by monetary institutions for gold purchases should be entered as a credit; and vice versa for sales.

Item 11: Mine output

178. This item also includes the gold content of ore exported for processing. Instead of mine output, gold sales by the mines may be entered if data on them are more accurate or more readily available. (See also next paragraph.)

Item 12.2: Mine inventories

179. Changes in mine inventories should be entered here unless gold sales by the mines, instead of mine output, are entered in item 11, in which case no entries should be made here. Mine inventories should include the mines' holdings abroad of unrefined and refined gold arising from gold sent abroad for refining.

Item 12.4: Hoards

180. This entry may have to be derived indirectly by deducting items 12.1, 12.2, and 12.3 from item 12; that item in turn may have to be derived indirectly by deducting item 11 from item 10.

TABLE II(b)

Items 1 and 2: Exports and imports

181. These items cover all physical movements of gold across the compiling country's customs frontiers during the reporting period, whether or not the gold changes from domestic to foreign ownership or vice versa.

Items 1.1 and 2.1: Refined gold

182. Exports (credit) of refined gold transferred from domestic to foreign ownership during the reporting period and imports (debit) of refined gold transferred from foreign to domestic ownership during the reporting period should be valued at the transactions value, including freight and insurance up to the point of delivery (see General Note to Tables II(a) and II(b), paragraph 166). The transactions value should be net of commissions and handling charges paid by the purchaser, but should *not* be net of such charges if paid by the seller; in both cases such charges should be treated as separate transactions in services, appropriate to Table VIII, item 2.12. Refined gold exported and imported without a change of ownership during the reporting period should be valued uniformly f.o.b. the exporting country.

Items 1.2 and 2.2: Unrefined and partly worked gold

183. Exports (credit) and imports (debit) of unrefined gold during the reporting period should be valued uniformly f.o.b. the exporting country. Unrefined gold should include gold mixed with other metals (e.g., in copper bars), gold content of scrap and sweepings, gold concentrates, and the recoverable content of ore. The fine gold content and also, frequently, the transactions price paid per ounce, e.g., in the case of mixed ore, may have to be estimated; the transactions price should exclude refining costs and international freight and insurance. Partly worked gold should include plate, sheet, wire, and other gold products in which the value of the gold is 80 per cent or more of the total value. (See also next paragraph.)

Items 4 and 5: Changes in gold holdings

184. These items adjust the physical movements recorded in items 1 and 2 to include purchases and sales of gold during the reporting period which do not involve movements across the compiling country's customs frontier and to exclude physical movements during the reporting period which do not represent changes of ownership. The most important adjustments stem from transactions in gold held on earmark, and from unrefined gold exported and imported for refining. The rationale of these items is the same as that for the adjustments for changes in stocks shown in items 6.1 and 6.2 of Table I (see Notes to Items in Table I, paragraph 154). Changes in gold stocks which offset those exports and imports of refined or unrefined gold not involving a change of ownership in the reporting period should be valued f.o.b. the exporting country, as are the corresponding exports and imports. Those changes in stocks of refined gold which represent international purchases and sales should be valued at the transactions value at the point of delivery. Additions to gold held on earmark abroad by the compiling country which result from the refining abroad of

unrefined gold for domestic account should be entered at the market value in the country where the gold is located, and withdrawals of such gold for reimport into the compiling country should also be so valued. Additions to gold held by foreigners on earmark in the compiling country which result from the refining for foreign account of imported unrefined gold should be valued at the market value in the compiling country, and withdrawals of such gold for reimport into the owner country should also be recorded at this market value.

Item 4.1: Refined gold held abroad

185. This item covers mainly the net change in stocks of refined gold held abroad on earmark by the compiling country. The net change is equal to the sum of all additions to refined gold earmarked abroad for the compiling country's account, whether arising from purchases from foreign countries, exports from the compiling country, or domestically produced gold refined abroad, less the sum of all withdrawals from gold earmarked abroad for the compiling country's account, whether for sale to foreign countries or import into the compiling country. Additions to stocks of refined gold held abroad which are obtained from unrefined gold sent abroad for refining for the compiling country's account should be valued at the market price in the country where the stocks are located; the value of these additions should therefore be equal to the estimated f.o.b. value of the unrefined gold when exported, plus costs of refining and international freight and insurance.

Item 4.2: Unrefined and partly worked gold held abroad

186. This item covers the net change in stocks of unrefined gold held abroad by the compiling country, e.g., unrefined gold exported for refining abroad. The net change is usually equal to increases arising from shipments abroad during the reporting period less decreases arising from return of processed gold to the compiling country, additions of processed gold to the compiling country's stocks abroad, or sale of processed or unprocessed gold to foreigners. All increases and decreases in those stocks that originated in exports from the compiling country should be valued at the estimated f.o.b. value at which the exports were recorded. There may also be changes arising from the compiling country's purchases abroad of unrefined gold; such changes should be valued f.o.b. the country where the gold was purchased.

Item 5.1: Refined gold held by foreigners

187. This item corresponds to item 4.1, *mutatis mutandis*. It covers mainly the net change in total refined gold held on earmark in the compiling country by foreign countries and international institutions.

Item 5.2: Unrefined and partly worked gold held by foreigners

188. This item corresponds to item 4.2, *mutatis mutandis*. It covers the net change in stocks of unrefined gold held in the compiling country by foreign countries.

Item 6: Net foreign transactions at transactions value

189. This item covers the net of international transactions in refined and unrefined gold and of the refining fees paid by residents to foreigners, and vice versa (see note to item 2 of Table II(a), paragraph 173). It is equal to the net of items 1, 2, and 5 of Table II(a).

Item 7: Change in monetary gold holdings at par value

190. This item is equal to item 8 of Table II(a); see note to that item, paragraph 176.

Items 9 and 10: Mine output and net uses

191. These items are equal to items 11 and 12 of Table II(a); see notes to those items, paragraphs 178-80.

GENERAL NOTE TO TABLES III.A, III.B, AND IV

192. Table III.A and III.B cover freight and direct insurance on international shipments of goods and gold. Such international shipments comprise mainly the merchandise included in Table I, those goods exported and imported for processing which are not recorded on a gross basis in item 1, gold included in Tables II, XV, and XVI, and those goods for diplomatic missions and military establishments which are not included in the balance of payments. Table IV covers all other transportation transactions. Other insurance transactions are included in Table VIII.

193. The compiling country's carriers are those operated by residents of the compiling country. The operator of a carrier is the person, enterprise, or institution who is the primary organizer of the transportation service provided by the carrier and who therefore receives the payment for the service. When the owner of a carrier is the operator, his country of residence is the operating country. When the owner leases a carrier under a *time* charter to another person or enterprise (the charterer), or entrusts the operation of a carrier to a manager, the charterer or manager becomes the operator and his country of residence the operating country. However, when a carrier is chartered to carry cargo for one voyage only (*voyage* charter), there is no change of operator. The owner or manager of the carrier then merely contracts to provide a transportation service to the charterer. For balance of payments purposes, payments for such services are to be recorded in Table III.A, and no time-charter payment is involved.

194. In some cases of time charter, the charterer may use the carrier for the purposes of his own organization. Even though there may be no freight payment in such cases, the charterer is considered to render transportation services to his organization, and the payment to the owner of the carrier is a time-charter payment. For example, an oil-producing company may hire tankers on time charter to transport its crude oil to a refinery. The oil company becomes the operator of the tankers and renders a transportation service to itself for which it makes a freight payment to itself; the payment to the owner of the tankers is a time-charter payment. In most such cases, however, the transportation services are provided by a separate economic unit (e.g., a subsidiary) within the organization.

195. When the owner entrusts the operation of a carrier to a manager in another country, the carrier should be treated as if it had been leased to a foreign resident (the manager) on a time charter. The manager becomes the operator of the carrier and receives the payments for the transportation services provided by the carrier. Net earnings accruing to the owner from the operation of the carrier should be entered in Table IV as time charters.

196. In national income accounts, the domestic and national product of a country include as final sales all transportation services provided by carriers operated by that country. Time-charter hire paid by that country to other countries are payments for intermediary services entering the transportation services in the same way as imports of bunker oil. Carriers are regarded as a domestic investment and part of the real assets of the country of residence of the persons or enterprises who own the carriers. (If two or more countries jointly own carriers, the domestic investment of each country may be taken to be the amount it has invested in the carriers.) When a carrier is leased under a time charter, it remains part of the domestic capital of the owner's country. Therefore, no foreign investment income nor international capital movement is involved in a time charter.

197. Immovable transportation facilities, e.g., railway tracks and oil and gas pipelines, owned by a country's residents but located outside its territory, are usually treated as separate enterprises resident in the country of location, and are therefore treated as foreign direct investment of the owning country and domestic investment of the country of location. When this treatment is adopted, the services rendered by the facilities to the country where they are located are not international transactions. But transportation services rendered to other countries are international transactions between the countries receiving the services and the country where the facilities are located. The value of total services rendered by the facilities less operating costs represents investment income and should be entered in Table VI.

GENERAL NOTE TO TABLES III.A AND III.B

198. These tables cover freight and direct insurance (i.e., excluding reinsurance) on international shipments. Other freight earned by the compiling country, e.g., freight earned in foreign coastal traffic or traffic within the territory of a foreign country, and similar earnings by foreign carriers for services rendered to the compiling country, should be entered in Table IV. Other insurance transactions should be entered in Table VIII.

199. These tables are constructed according to the convention that the costs of freight and direct insurance incurred for transferring the goods to the point of uniform valuation (see paragraph 26) represent transactions between a resident of the exporting country, usually the exporter, and the carrier or insurer; and that similar costs for transferring the goods beyond that point represent transactions between the importer and the carrier or insurer.

200. Since exports are uniformly recorded on an f.o.b. basis, freight earnings and insurance premiums accruing to residents on exports are regarded as transactions between residents and foreigners. They are recorded as receipts in the balance of payments independent of whether they are actually paid by the exporter or by the foreign importer.

201. Since imports are sometimes recorded on an f.o.b. basis and sometimes on a c.i.f. basis, it is necessary to provide for the recording of freight and insurance premiums on imports on two alternative bases. For this reason, Tables III.A and III.B are both divided into two parts, designated "on f.o.b. basis" and "on c.i.f. basis." When imports are valued f.o.b., the first part of the tables should be used, and when imports are valued c.i.f., the second part should be used.

202. When imports are entered f.o.b., the freight and insurance premiums on them are regarded as transactions between the importer and the carrier or insurer. Such costs should be included as debits in the balance of payments when paid to foreigners and be omitted from the balance of payments when paid to residents.

203. When imports are entered c.i.f., freight and insurance premiums on them are regarded as transactions between the exporter and the carrier or insurer. When they accrue to foreigners, they should be omitted from the balance of payments, and when they accrue to residents, they should be included as credits in the balance of payments.

204. The convention, necessary when imports are recorded c.i.f., that freight and insurance on imports represent transactions between the exporter and the carrier or insurer is rather unrealistic. Since the importer ultimately bears the whole cost of the imports, it may be simpler to interpret the credit entries for freight and insurance earned by domestic carriers on imports recorded c.i.f. as offsets to an overstatement of payments for merchandise rather than as genuine international transactions. Similarly, it is perhaps simpler to justify the omission from Tables III.A and III.B of import freight and insurance premiums accruing to foreigners by the fact that they are already included as international transactions in the merchandise account, rather than by the convention that they do not represent international transactions. While the gross entries for merchandise and freight and insurance are different on the two valuation bases, the net total of these items is the same.

TABLE III.A. FREIGHT ON INTERNATIONAL SHIPMENTS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Ocean Vessels		Aircraft	Other and Unallocated	Total
	Petroleum tankers	Other			
Freight on F.O.B. Basis					
Credit					
1. Receipts by domestic carriers (1.1 plus 1.2 = Table A, item 3.1, credit)					
1.1. On exports					
1.2. On other shipments, excluding imports ..					
Debit					
2. Payments to foreign carriers (2.1 plus 2.2 = Table A, item 3.1, debit)					
2.1. On imports					
2.2. On shipments other than trade					
Memorandum item					
3. Freight received by domestic carriers on imports					
Freight on C.I.F. Basis					
Credit					
4. Receipts by domestic carriers (4.1 through 4.3 = Table A, item 3.1, credit)					
4.1. On imports					
4.2. On exports					
4.3. On other shipments					
Debit					
5. Payments to foreign carriers on shipments other than trade (Table A, item 3.1, debit) ..					

NOTES TO ITEMS IN TABLE III.A

205. The credit and debit items in this table should be entered f.o.b. or c.i.f. according to the basis on which imports are entered in Table I.

206. For convenience the terms "freight receipts (or payments)" and "freight received (or paid)" are used in the following notes as synonyms for the phrase "transactions value of transport services." The latter phrase is more exact because transport services may be rendered without payment of a quid pro quo and because transactions should be entered as at the time the services are rendered rather than when payment is made.

207. The column, "other and unallocated," includes railways, motor vehicles, and other road carriers (carts, horses, camels, yaks, etc.), inland waterway carriers, and oil and gas pipelines.

FREIGHT ON F.O.B. BASIS

Item 1.1: Receipts by domestic carriers on exports

208. This item covers freight received by domestic carriers on shipments from the compiling country to foreign countries, whether referring to merchandise recorded in Table I or to other shipments for foreign account. The item should omit any costs of transport incurred within the territory of the compiling country, or after the goods are unloaded at the customs frontiers of the importing countries. The value of export transportation services rendered to foreigners by the compiling country without a quid pro quo should be included here, with a contra-entry in Table IX or X.

Item 1.2: Receipts by domestic carriers on other shipments, excluding imports

209. This item covers freight received by domestic carriers for transport of goods between any two foreign countries, for foreign transit traffic within the compiling country, and for shipments to the compiling country of goods of foreign ownership not included in the balance of payments (e.g., household goods of foreign diplomats). It includes freight paid to domestic carriers by domestic merchants in respect of their merchandise transactions abroad.

Item 2: Payments to foreign carriers

210. This item covers freight paid to foreign carriers for transporting the compiling country's imports from the customs frontiers of the exporting countries to the customs frontier of the compiling country. The item should include any foreign costs of transport incurred after shipment from the exporting countries, including costs of transshipment, but should exclude any costs incurred after the goods are unloaded at the customs frontier of the compiling country. The value of similar transportation services rendered to the compiling country by foreigners without a quid pro quo should be included here, with a contra-entry in Table IX or X. The item also includes freight paid by residents to foreign carriers on international shipments not referring to trade (e.g., household goods of diplomats of the compiling country).

Item 3: Freight received by domestic carriers on imports

211. This memorandum item covers freight received by domestic carriers for transporting the compiling country's imports from the customs frontiers of the exporting countries to the customs frontier of the compiling country. The item provides data for reconciling f.o.b. and c.i.f. values for imports that are also useful for studies of international shipping.

FREIGHT ON C.I.F. BASIS

Item 4: Receipts by domestic carriers

212. This item is equal to the sum of items 1 and 3 in the table.

Item 4.1: Receipts on imports

213. This item equals item 3.

Item 4.2: Receipts on exports

214. This item equals item 1.1.

Item 4.3: Receipts on other shipments

215. This item equals item 1.2.

Item 5: Payments to foreign carriers on shipments other than trade

216. This item equals item 2.2.

TABLE III.B. INSURANCE ON INTERNATIONAL SHIPMENTS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ ....Per ....

Item	Credit	Debit
Insurance on F.O.B. Basis		
1. Premiums (1.1 through 1.3)		
1.1. On imports	xxx	
1.2. On exports		xxx
1.3. Other		
2. Claims (2.1 through 2.3)		
2.1. On imports		
2.2. On exports		
2.3. Other		
3. Total (1 plus 2 = Table A, item 3.2)		
4. Memorandum item: premiums on imports received by residents		xxx
Insurance on C.I.F. Basis		
5. Premiums (5.1 through 5.3)		
5.1. On imports		xxx
5.2. On exports		xxx
5.3. Other		
6. Claims (6.1 through 6.3)		
6.1. On imports		
6.2. On exports		
6.3. Other		
7. Total (5 plus 6 = Table A, item 3.2)		

NOTES TO ITEMS IN TABLE III.B

217. This table covers direct insurance premiums and claims on account of risks involved in the international shipment of goods and gold. Reinsurance of such risks, and other insurance transactions, are included in Table VIII. In accordance with the definition of resident in this Manual, branches and subsidiaries in the compiling country of foreign insurance companies should be treated as domestic, and foreign branches and subsidiaries of the compiling country's insurance companies should be treated as foreign. Also, transactions of residents with domestic agents of foreign insurance companies should be treated as transactions with their foreign principals, and conversely for transactions of foreigners with foreign agents of domestic insurance companies.

218. The credit and debit items in this table should be entered f.o.b. or c.i.f. according to the basis on which imports are entered in Table I.

INSURANCE ON F.O.B. BASIS

Item 1.1: Premiums on imports

219. The entry (debit) covers insurance premiums paid to foreigners on imports insured abroad whether this payment was made directly to the foreign insurance company or indirectly as a part of the payment to the foreign exporter for the goods imported. The item also includes insurance premiums paid by residents to foreigners on international shipments other than trade.

Item 1.2: Premiums on exports

220. The entry (credit) covers insurance premiums received by domestic insurance companies on exports and on other shipments from the compiling country to foreign countries for foreign account. No debit entry is made for premiums paid to foreigners on exports, since the foreign importer is assumed to bear the cost of insurance.

Item 1.3: Premiums on other shipments

221. The credit entry covers all premiums received by domestic insurance companies in connection with insuring risks on shipments of merchandise and gold between foreign countries, including premiums received from residents in connection with merchandise transactions abroad. The item also includes premiums received on shipments to the compiling country for foreign account other than trade. The debit entry refers only to nontrade items; premiums paid by residents to foreigners for insurance of goods entering merchandise transactions abroad should be excluded, to avoid duplication with item 8 of Table I.

Item 2: Claims

222. The entries for claims refer to the type of shipment for which premiums are entered in the corresponding subitems of item 1.

Item 4: Premiums on imports received by residents

223. This memorandum item covers premiums for the insurance of imports received by domestic insurance companies from residents and foreigners.

INSURANCE ON C.I.F. BASIS

Items 5 and 6: Premiums and claims

224. Items 5.1, 5.2, 5.3, and 6 are equal to items 4, 1.2, 1.3, and 2, respectively.

SIMPLIFIED TREATMENT OF INSURANCE

225. The compilation of data on merchandise insurance transactions can be greatly simplified if certain errors—which are relatively minor and in any case offsetting—are admitted in the accounts. Since merchandise insurance is a small item and one for which it is often difficult to obtain data, particularly on transactions between foreign insurance companies and residents, the remarks made in paragraph 106 about applying the principles of this Manual flexibly will often be appropriate to these transactions. The simplified treatment ignores the adjustments that would be needed to avoid duplication between the entries for insurance claims and merchandise transactions and instead permits mutually offsetting errors, as follows. The adjustment to exports for goods lost en route, and for the reduction in value of exports arriving in damaged condition for which the exporter carries the risk, and the corresponding adjustment to imports for loss and damage at the importer's risk (see paragraphs 145(e) and 151(k)) are omitted even though this results in an overstatement of export receipts and an understatement of import payments. In fact, imports arriving in damaged condition should in this case be entered at their reduced value and, if

necessary, be adjusted downward to that basis. Since the loss of and damage to goods in international trade are ordinarily covered by insurance, this error is corrected by eliminating the entries for claims received by residents from foreign insurance companies on account of exports and imports and entering as debits the insurance claims paid by domestic insurance companies to residents on account of such transactions. When these modifications are made, the only entries in Table III.B for insurance claims will be for those paid by domestic insurance companies. These will be recorded as debits and will cover all claims paid by them, whether to residents or foreigners, and whether referring to exports, imports, or trade between foreign countries. No claims paid by foreign insurance companies on account of international trade should then be recorded.

226. If merchandise insurance is on an f.o.b. basis, a simplification is also possible in the treatment of insurance premiums. (When the c.i.f. basis is used, Table III.B includes only a credit entry for premiums, covering all those received by domestic insurance companies from residents or foreigners on account of international trade; any premiums paid by residents to foreign insurance companies are excluded. This treatment cannot be further simplified.) When Table III.B is on an f.o.b. basis, the credit entry for premiums excludes those that refer to imports and includes only those that refer to exports or trade between foreign countries, and there is a debit entry for insurance premiums paid to foreign insurance companies on account of imports. If insurance premiums received by domestic insurance companies on imports are added to both sides of the account, the credit entry will cover, as on the c.i.f. basis, all premiums received by domestic insurance companies from residents and foreigners on account of international trade, and the debit entry will cover all insurance premiums on imports, whether paid to domestic or foreign insurance companies. The simplified insurance account thus has the following composition:

	F. O. B. Basis	C. I. F. Basis
Credit:	All premiums received by domestic insurance companies from residents and foreigners on account of international trade.	All premiums received by domestic insurance companies from residents and foreigners on account of international trade.
Debit:	All claims paid by domestic insurance companies to residents and foreigners on account of international trade.	All claims paid by domestic insurance companies to residents and foreigners on account of international trade.
	All premiums paid on imports to domestic and foreign insurance companies.	

TABLE IV. OTHER TRANSPORTATION

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Ocean Vessels		Aircraft	Other and Unallocated	Total
	Petroleum tankers	Other			
Credit					
1. Passenger fares					
2. Time charters					
3. Port disbursements					
3.1. Bunker oil					
3.2. Other					
4. Other (includes coastal shipping)					
5. Total (1 through 4 = Table A, item 4, credit)....					
Debit					
6. Passenger fares					
7. Time charters					
8. Port disbursements					
8.1. Bunker oil					
8.2. Other					
9. Other (includes coastal shipping)					
10. Total (6 through 9 = Table A, item 4, debit)					
Memorandum Item					
11. Fares received by domestic carriers from residents					

NOTES TO ITEMS IN TABLE IV

227. The column, "other and unallocated," includes railways, motor vehicles, and other road carriers (carts, horses, camels, yaks, etc.), inland waterway carriers, and oil and gas pipelines.

Item 1: Passenger fares (credit)

228. This item covers all receipts from foreigners by domestic carriers for the transport of persons, except receipts for local transportation from foreigners traveling in the compiling country, which should be included in Table V. In addition to passenger fares, it includes shipboard and similar expenses, and fees charged for excess baggage and other articles accompanying passengers, e.g., automobiles. If passenger fares paid by residents to domestic carriers for international transport are included with travel expenditures abroad and entered as debits in Table V, such domestic transactions should also be entered here as an offset. Otherwise they should be entered in item 11 (see note to that item, paragraph 243).

Item 2: Time charters (credit)

229. Receipts by residents of the compiling country from foreign operators for the time charter of domestically owned carriers should be entered here. The item also includes net amounts accruing to domestic owners from the earnings of their carriers operated by foreign managers.

Item 3: Port disbursements (credit)

230. This item covers all disbursements in the compiling country, other than for time charters (item 2), by foreign carriers, including foreign naval and military vessels and aircraft visiting the compiling country.

Item 3.1: Bunker oil (credit)

231. This item covers all sales of bunker oil and aviation fuel to foreign carriers visiting the compiling country.

Item 3.2: Other port disbursements (credit)

232. This item includes receipts from foreign carriers for bunker coal, ships' stores and similar supplies, stevedoring, harbor and airfield fees, towage, and repairs and maintenance. It also covers expenditures in the compiling country of carrier crews who are residents of foreign countries, but it excludes expenditures by resident crews on foreign carriers (see note to item 8.2, paragraph 240).

233. In principle, total wages paid to foreign crews on domestic carriers should be entered as debits in Table VIII (see paragraph 299) and the amount spent by such crews in the compiling country should be entered in item 3.2 of this table (see paragraph 232). If only the net amount remitted by foreign crews to their home countries is known, and their expenditures (whether in the compiling country or abroad) cannot be separated from those of resident crews, it may be expedient to include the net remittances by foreign crews in Table VIII, and their expenditures in foreign ports in item 8.2 of this table.

Item 4: Other (credit)

234. This item covers all earnings, not included elsewhere, of domestic carriers from foreigners. It includes mail fees, salvage earnings, earnings from foreign coastal traffic and traffic within foreign territories other than passenger fares (included in item 1), and any other earnings which are not derived from international shipments of goods and gold.

235. The uniform valuation for both exports and imports adopted in this Manual, whether f.o.b. or c.i.f., implies that costs of freight and insurance incurred for transportation of goods to the customs frontier of the exporting country, if they accrue in exceptional cases to a carrier or insurer of the importing country (e.g., in respect of a truck loaded at an interior point in the exporting country), must be entered in the balance of payments of both the exporting and the importing country to offset the overstatement of receipts and payments, respectively. The exporting country should enter a freight payment offsetting the overstatement of export receipts, and the importing country a freight receipt offsetting the overstatement of import payments. (See "Underlying Principles," section 6(a), paragraph 28.) This item should thus include, as an offset, any freight payments to residents that are included in the f.o.b. or c.i.f. value of imports recorded in Table I, item 7. Such freight will cover, for example, freight to the customs frontier of the exporting country on the compiling country's imports when they are loaded on the compiling country's trucks at an interior point in the exporting country.

Item 6: Passenger fares (debit)

236. This item covers all payments by residents of the compiling country to foreign carriers in connection with the transport of persons, except payments to foreign carriers for local transport within foreign countries, which should be entered in Table V. For the type of payment to be included here, see note to item 1, paragraph 228. (See also paragraph 243.) If payments to foreign carriers for transport of persons cannot be separated from travel expenditures, the total payments should be entered in Table V, debits, instead of here.

Item 7: Time charters (debit)

237. Payments by domestic operators of carriers to foreigners for the time charter of foreign-owned carriers should be entered here. The item also includes net amounts accruing to foreign owners from the earnings of their carriers operated by domestic managers.

Item 8: Port disbursements (debit)

238. This item covers all disbursements abroad, other than for time charters (item 7), by domestic carriers, including domestic military and naval vessels and aircraft visiting foreign countries.

Item 8.1: Bunker oil (debit)

239. This item covers all purchases of bunker oil and aviation fuel by domestic carriers visiting foreign countries.

Item 8.2: Other port disbursements (debit)

240. This item includes payments by domestic carriers to foreigners for bunker coal, ships' stores and similar supplies, stevedoring, harbor and airfield fees, towage, and repairs and maintenance. It also includes expenditures abroad of carrier crews who are residents of the compiling country (see note to item 3.2, paragraphs 232 and 233).

241. In principle, total wages received by crews who are residents of the compiling country from foreign operators of carriers should be entered as credits in Table VIII (see paragraph 299), and the amount spent abroad by such crews should be entered in this item. If only the net amount of wages received and expenditures abroad is known, i.e., the amount remitted to the compiling country, the net amount should be entered in Table VIII rather than in Table IV.

Item 9: Other (debit)

242. This item covers all payments not included elsewhere to foreign carriers from residents of the compiling country. It includes mail fees, salvage earnings, earnings of foreign carriers in domestic coastal traffic and traffic within the compiling country's territory other than passenger fares (included in item 6). This item also includes, as an offset, any freight on exports accruing to foreigners which is included in the f.o.b. value of exports recorded in item 7, credit, of Table I, e.g., inland truck freight accruing to foreigners (see note to item 4, paragraph 235).

Item 11: Fares received by domestic carriers from residents

243. Passenger fares (as defined in item 1, paragraph 228) received by domestic carriers from residents in connection with travel beyond the borders of the compiling country should be entered in this memorandum item. However, if the method used to estimate travel expenditures abroad of residents necessitates the entry of such fares as debits in the travel account (Table V), these debits should be offset by entering an equivalent credit in item 1, Table IV. (If this treatment is necessary, item 1 will cover passenger fares received by domestic carriers from residents and foreigners, and presumably no entry can be made in item 6.)

TABLE V. TRAVEL

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Credit	Debit
1. Tourists		
2. Business travelers		
3. Students		
4. Government officials		
5. Others		
6. Total (1 through 5 = Table A, item 5)		
Alternative classification, if any:		

NOTES TO TABLE V

244. This table covers expenditures in the compiling country of nearly all foreign visitors (credits) and expenditures abroad by nearly all residents visiting foreign countries (debits). The expenditures of foreigners in the compiling country and of residents abroad which are *not* included in this table, but in other accounts, are as follows: First, expenditures in the compiling country of foreign crews and other carrier personnel, and expenditures abroad by resident crews, are included in Table IV. Second, personal expenditures in the compiling country of foreign diplomats and military forces stationed in the compiling country, and personal expenditures in the country where they are stationed of the compiling country's diplomats and military forces abroad, are included in Table VII. (In principle, personal expenditures in the compiling country of foreign diplomats and military forces stationed in other countries, and personal expenditures outside the country where they are stationed of the compiling country's diplomats and military forces abroad, should be entered in this table rather than in Table VII. Also, expenditures of government officials visiting foreign countries but not stationed abroad should be entered in this table.) Third, personal expenditures of migrant workers in the country where they work should be included in Table VIII, item 2.1.

245. For foreign travelers whose expenditures are included in Table V, the credit entries should cover all their expenditures in the compiling country incidental to their travel, including their expenditure for local transportation within the compiling country and all their purchases of goods for import into the home ~~compiling~~ country other than for business purposes. (Except for such local transportation expenditures, receipts by domestic carriers for the transport of persons should be included in Table IV.) For the resident travelers covered by Table V, the debit entries should cover all their expenditures abroad incidental to their travel, except those payments to foreign carriers for transportation which are included in Table IV. However, if such payments for passenger fares cannot be separated from other travel expenditures, the total should be entered in Table V (see also note to item 6 of Table IV, paragraph 236).

246. Items 1-5 of this table are intended to suggest a possible classification of travel receipts and expenditures by purpose of travel. Some other purposes, e.g., pilgrimage or medical care, may be more significant for the compiling country. In addition to a classification by purpose of travel, travel receipts and payments may be divided according to other criteria that are significant for the compiling country, e.g., between border and other traffic, or between motor vehicle, railway, and other traffic.

GENERAL NOTE TO TABLE VI

247. The credit entries in this table cover residents' income from financial investment abroad, and the debit entries the income of foreigners from financial investment in the compiling country. In principle, investment income includes not only actual but also imputed income, such as imputed interest on accumulated savings in the form of life insurance and imputed income from financial investment in noncommercial real estate, e.g., embassy buildings. (See "Underlying Principles," section 3(b), paragraph 12.) Such imputed income must be included for reconciliation with the UN and OEEC systems of national accounts. The entries include undistributed earnings of corporate direct investment enterprises, other dividends declared and payable but not distributed, and other interest payable but added to principal amounts of outstanding assets and liabilities; these items are offset by contra-entries in Tables XI-XVI.

248. Income received by residents from foreigners for the mere use of real assets and payments by residents to foreigners for the use of such assets should not be included here. Film rentals, time charters, payments for lease of real estate (rentals), and similar items are not income on financial capital and should consequently not be entered in this table but in the table appropriate to the type of service involved.

249. The entries in the table should also exclude issues of stock dividends and bonus shares, since these do not represent income (compare with General Note to Tables XI-XVI, section 7, paragraph 357).

250. For reconciliation with the UN and OEEC systems of national accounts, income should be entered before taxes paid, by or on behalf of the recipients, to the country in which the investment is made. However, taxes on earnings of branches and other unincorporated direct investment enterprises, and on earnings of corporate direct investment enterprises before distribution, should be considered payable by them and not by their foreign owners. Income from branches and other unincorporated direct investment enterprises, and undistributed earnings of subsidiaries and other corporate direct investment enterprises, should therefore be entered net of income taxes to the country in which they are located. According to the UN and OEEC systems of national accounts, the taxes on investment income to be deducted should in principle be those becoming due for payment without penalty during the re-

porting period. The difference between the taxes calculated on this basis and those actually debited to profit and loss accounts by the direct investment enterprises should be regarded as an addition to or a deduction from their undistributed earnings. If the difference is small, the income may in practice be entered net of taxes debited to profit and loss accounts, and no adjustment need be made to the undistributed earnings to calculate movements of direct investment capital.

TABLE VI. INVESTMENT INCOME

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Credit	Debit
1. Direct investment income (1.1 through 1.4 = Table A, item 6.1)		
1.1. Earnings of branches		
1.2. Dividends		
1.3. Interest		
1.4. Undistributed corporate earnings		
2. Other dividends (Table A, item 6.2)		
3. Other interest (3.1 through 3.6: Table A, part of item 6.3)		
3.1. IMF charges	xxx	
3.2. International agencies		
3.3. Intergovernmental loans		
3.4. Other government obligations		
3.5. Deposits		
3.6. Other		
4. Other (Table A, part of item 6.3)		
5. Total (1 through 4 = Table A, item 6)		

NOTES TO ITEMS IN TABLE VI

Item 1: Direct investment income

251. The credit entries cover all income accruing to residents of the compiling country from direct investment enterprises abroad as covered by items 1 and 2 of Table XI (assets). The debit entries cover all income accruing to nonresidents from direct investment enterprises in the compiling country as covered by items 1 and 2 of Table XI (liabilities). Direct investment enterprises include commercial real estate.

Item 1.1: Earnings of branches

252. The credit entry covers earnings of residents from branches and other unincorporated direct investment enterprises abroad, whether remitted or not; the debit entry covers earnings of nonresidents from branches and other unincorporated direct investment enterprises in the compiling country, whether remitted or not. (See also note to item 1.5 of Table XI, paragraph 385.) The earnings should be entered net of taxes on investment income payable to the country in which the branch or unincorporated direct investment enterprise is located (see General Note to Table VI, paragraph 250). Net losses on resident investment abroad should be entered as negative credits, and net losses on foreign investment in the compiling country should be entered as negative debits. The earnings should in principle be recorded net of provision for depletion of natural resources as well as for depreciation, and should be adjusted to exclude any windfall gains or losses.

Item 1.4: Undistributed corporate earnings

253. The share of residents in undistributed earnings of foreign direct investment corporations should be entered in this item as a credit; the debit entry should cover undistributed earnings of resident direct investment corporations accrued to all nonresidents. The treatment of taxes on investment income, net losses, windfall gains and losses, and the depletion of natural resources is the same as in item 1.1, above.

Item 3: Other interest

254. This item includes all commitment charges in lieu of interest.

Item 3.1: IMF charges

255. This item covers charges by the International Monetary Fund for the use of its resources, including stand-bys.

Item 3.2: International agencies

256. The credit entry covers interest received on obligations of international lending agencies such as the International Bank for Reconstruction and Development. The debit entry covers interest, including commitment charges, paid by residents of the compiling country on loans from or investments of such international lending agencies.

Item 3.3: Intergovernmental loans

257. This item covers interest received (credit) and paid (debit) on loans between the central government in the compiling country and foreign central governments.

Item 3.4: Other government obligations

258. The credit entry covers interest received on foreign central government obligations other than those included in item 3.3. The debit entry covers interest paid by the central government of the compiling country on foreign obligations other than those included in item 3.3.

Item 3.5: Deposits

259. This item covers interest on deposits held in nonmonetary financial institutions, such as building societies and credit associations, as well as in central and other monetary institutions.

Item 3.6: Other interest

260. The main components of this item will probably be interest on bank advances and overdrafts and on private and local government bonds. The item also includes any interest, imputed or actually received and paid, that cannot be entered in the preceding items for statistical or other reasons.

Item 4: Other investment income

261. This item includes income accruing from ownership of noncommercial real estate. For reconciliation with the UN and OEEC systems of national accounts, the item also includes imputed net income on embassy buildings and other government nonmilitary installations.

GENERAL NOTE TO TABLES VII AND VIII

262. These tables cover all transactions in goods and services that are not specifically included in Tables I-VI or that cannot be allocated to those tables for statistical reasons. For transactions of the compiling country's government with foreigners, and of private residents with foreign governments, that are considered to be transfer payments rather than service transactions, see paragraphs 316-18 and 333-35.

263. Table VII covers all transactions of the compiling country's central government (defined as in paragraph 341) in goods and services not included in Tables I-VI, and personal expenditures of central government personnel in the foreign country where they are stationed. Table VII also includes transactions in goods and services not included elsewhere between foreign central government institutions and their nonresident personnel stationed in the compiling country, on the one hand, and residents of the compiling country other than its central government, on the other.

264. Items covering expenditures by foreign government institutions in the compiling country should include expenditures in that country by international organizations. However, since the staffs of international organizations are considered residents of the countries where they are stationed, Table VII excludes expenditures in the compiling country of staff members of such organizations who are stationed in the compiling country, but includes payments by the organizations to such staff.

265. Table VIII covers all transactions in goods and services not included in Tables I-VII. These transactions take place between residents other than the central government of the compiling country and foreigners other than central governments and international organizations.

TABLE VII. GOVERNMENT TRANSACTIONS, NOT INCLUDED ELSEWHERE*

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ ...., Per ....

Item	Credit	Debit
1. Military transactions (1.1 through 1.6 = Table A, item 7.1)		
†1.1. Wage payments to local staff		
1.2. Contributions to common defense		
*1.3. Troop personal expenditures		
1.4. Other transactions of compiling country's military agencies		
1.5. Other transactions of foreign military agencies with compiling country's government		
1.6. Other transactions of foreign military agencies with other residents		
2. Nonmilitary transactions (2.1 through 2.5 = Table A, item 7.2)		
†2.1. Wage payments to local staff		
2.2. Services under aid programs		
*2.3. Diplomatic personal expenditures		
2.4. Other transactions of compiling country's government institutions		
2.5. Other transactions of foreign government institutions with other residents		
3. Total (1 plus 2 = Table A, item 7)		
4. Memorandum items		
†4.1. Factor income (1.1 plus 2.1)		
4.2. Transactions of compiling country's government institutions (credit: total of credits of 1.2, 1.4, 1.5, 2.2, and 2.4; debit: total of debits of 1.1, 1.2, 1.4, 1.5, 2.1, 2.2, and 2.4)		
4.3. Common defense and occupation services		

* Includes some transactions of government personnel for their own account (see General Note to Tables VII and VIII).

† Item specified for reconciliation with national accounts.

NOTES TO ITEMS IN TABLE VII

266. The various transactions should be entered in Table VII as follows:

Transacting Sector in the Compiling Country	Items in Table VII	
	Credit	Debit
Military agencies with		
Foreign military agencies*	1.2 or 1.4	1.2 or 1.4
Other foreign government institutions*	1.4	1.4
Other foreigners	1.4	1.1 or 1.4
Military personnel with foreigners		1.3
Other government institutions with		
Foreign military agencies*	1.5	1.5
Other foreign government institutions*	2.2 or 2.4	2.2 or 2.4
Other foreigners	2.2 or 2.4	2.1, 2.2, or 2.4
Other government personnel with foreigners		2.3
Other residents with		
Foreign military agencies*	1.1 or 1.6	1.6
Other foreign government institutions*	2.1 or 2.5	2.2 or 2.5
Foreign military personnel	1.3	
Other foreign government personnel	2.3	

*Including international organizations.

267. Acquisition and disposal of fixed assets by nonmilitary government institutions should be interpreted as transactions in equity capital in such property and, hence (like similar transactions by private residents), be entered in the capital account. However, transactions in fixed assets by military agencies should be included in this table because the construction of fixed assets for military agencies is not generally considered capital formation for national accounts purposes.

Item 1: Military transactions

268. Goods and services provided without charge by countries to foreign military forces stationed in those countries and the costs of such goods and services, whether they are provided under a common defense program or to occupation forces, should not be entered in this item but should be entered in item 4.3, as a memorandum item outside the balance of payments proper.

This treatment is adopted because it has not been possible to devise generally applicable rules for classifying the counterpart of such transactions; while goods and services provided by a country to foreign forces without charge are clearly international transactions in goods and services, their counterpart, i.e., the costs borne by the government of the country where the forces are stationed, may be a purchase of a defense service appropriate to this table, a transfer payment appropriate to Table X, or frequently a mixture of the two.

Item 1.1: Wage payments to local staff

269. This item covers wages and salaries received by residents of the compiling country from foreign military agencies and their nonresident personnel, including all military intergovernmental organizations (credit); and wages and salaries paid by the compiling country's military agencies and their resident personnel to foreigners (debit). (See also paragraph 268.)

Item 1.2: Contributions to common defense

270. The credit entry covers foreign governments' contributions to specific common defense expenditures in the compiling country, e.g., contributions to common use facilities. The debit entry covers similar contributions by military agencies of the compiling country to foreign governments and intergovernmental military agencies.

Item 1.3: Troop personal expenditures

271. The credit entry covers personal expenditures for goods and nonfactor services in the compiling country by foreign military personnel stationed in the compiling country. The debit entry covers personal expenditures for goods and nonfactor services of the compiling country's military personnel in the country where they are stationed. (See also paragraph 268.)

272. In principle, expenditures in the compiling country by foreign military personnel visiting that country but not stationed there, and expenditures abroad by the compiling country's military personnel outside the country where they are stationed should be entered in Table IV (crews of military vessels and aircraft) or Table V (other military personnel).

273. The expenditures in this item cover only those made directly by individuals outside their military establishments. Expenditures in their own canteens and post exchanges, and goods and services received in kind from military establishments, are excluded.

Item 1.4: Other transactions of compiling country's military agencies

274. This item covers all foreign transactions of the compiling country's military agencies in goods and services that are not appropriate to Tables I -VI, or to items 1.1 and 1.2, above, or that cannot be included in the appropriate accounts for statistical reasons. However, as indicated in paragraph 268, goods and services provided without charge by countries to foreign troops stationed in those countries and the cost of providing such goods and services are not included. (See also note to item 4.3, paragraph 290.)

275. The credit entry includes, for example, receipts of the compiling country's military agencies from foreign military forces and intergovernmental military agencies, stationed in the compiling country, such as receipts from leases of naval and other bases and receipts from sales of equipment and other goods and services that are for use by foreigners in the compiling country. (Sales of goods that are not for consumption by foreigners in the compiling country are excluded from this table. If such goods are shipped abroad, they are included in Table I; and if they are given back to the compiling country, they are entered in Table X as a cash grant.) The credit entry also includes receipts from sales of surplus property located in the country of purchase, and from services not included elsewhere that are rendered to foreign countries under military aid programs (see note to item 2.2, paragraph 283).

276. The debit entry includes expenditures abroad of the compiling country's military forces for their own account, such as payments for leases of bases and expenditures for food, equipment, and services that are consumed in the country of purchase. Purchases of goods that are not for use by them in the country of purchase are excluded from this table. If such goods are for use by the compiling country's military forces outside the country of purchase, they are included in Table I; if they are sold or given away to another foreign country, they are treated as merchandise transactions abroad (see General Note to Table I, paragraph 137). Goods that are given away are offset by a grant; if they are given back to the country of purchase, the transactions are treated as a cash grant (see General Note to Table I, paragraph 125).

277. The debit entry also includes payments to foreigners by military agencies of the compiling country for surplus property located in the compiling country and services not included elsewhere that are received by the compiling country under military aid programs. (For the valuation of aid services, see note to item 2.2, paragraph 284.)

Item 1.5: Other transactions of foreign military agencies with compiling country's government

278. This item covers all those transactions in goods and services in the compiling country of foreign military agencies for their own account with the compiling country's government that are not appropriate to Tables I-VI or to items 1.1-1.4, above, or that cannot be entered in the appropriate accounts for statistical reasons. However, as indicated above (paragraph 268), goods and services provided without charge by countries to foreign troops stationed in those countries and the costs of providing such goods and services are not included.

279. The credit entry covers receipts of the compiling country's government from foreign and intergovernmental military agencies other than payments made to the compiling country's military agencies, which are included in item 1.4. Item 1.5 covers only expenditures for goods and services for use by the foreign and intergovernmental military agencies in the compiling country. Expenditures for goods shipped abroad are treated as indicated in the note to item 1.4, paragraph 276.

280. The debit entry covers payments made by government institutions other than military agencies of the compiling country to foreign military agencies, e.g., payments for surplus property located in the compiling country.

Item 2.1: Nonmilitary wage payments to local staff

281. The credit entry covers wages and salaries received by residents from embassies, consulates, and other nonmilitary foreign government institutions and their nonresident personnel, and from nonmilitary intergovernmental institutions.

282. The debit entry covers wages and salaries paid to foreigners by embassies, consulates, and other nonmilitary government institutions of the compiling country.

Item 2.2: Services under aid programs

283. The credit entry covers services rendered by the compiling country's nonmilitary government institutions to foreigners without charge.

284. The debit entry covers services received [without charge] by the compiling country from foreign nonmilitary government institutions, from international institutions, and from foreign private institutions under nonmilitary aid programs (except transportation and insurance services, which are included in Tables III.A, III.B, and IV). The value of the services is measured by the administrative expenses of the aid programs incurred in the granting country, in the recipient country, and in third countries, including wages and salaries of resident and foreign technicians and employees of aid administrations.

Item 2.3: Diplomatic personal expenditures

285. This item covers personal expenditures for goods and nonfactor services of diplomatic, consular, and other nonmilitary personnel stationed outside their own country. (This item is analogous to item 1.3, paragraphs 271-73.)

Items 2.4 and 2.5: Other nonmilitary transactions

286. These items cover transactions of the compiling country's nonmilitary government institutions (item 2.4) and transactions of foreign countries' nonmilitary government institutions and of intergovernmental institutions (item 2.5), similar to those included for military agencies in items 1.4-1.6 (see paragraphs 274-80). The main component of these items will be operating expenses of embassies and consulates other than payments for wages and salaries.

287. Item 2.4, debit, includes fees paid to foreigners for underwriting the issue abroad of domestic government securities. Item 2.5, credit, includes fees earned by residents for underwriting the issue in the compiling country of foreign government and international institutions' securities (see Notes to Items in Table VIII, item 2.3, paragraph 303).

288. Item 2.4, debit, also includes gross payments to foreigners for leases of embassy buildings and other real estate abroad, and imputed gross rentals on real estate owned abroad by the compiling country's government. Item 2.5, credit, includes gross receipts from foreign governments for lease of real estate in the compiling country and imputed gross rentals on real estate owned by foreign governments in the compiling country. (See "Underlying Principles," section 3(b), paragraph 12; General Note to Table VI, paragraph 248; and Notes to Items in Table VIII, item 2.11, paragraph 310.)

289. Items 2.4 and 2.5 exclude both purchases and sales of real estate, such as embassy and consulate buildings, and expenditures and receipts for the construction of such buildings. These transactions are included in the capital account (Table XI, item 4.8, for liabilities, and Table XIV, item 7, for assets), as referring to equity capital in such property.

Item 4.3: Common defense and occupation services

290. This item covers goods and services provided without charge by governments to foreign military forces stationed in their countries. The credit entry covers goods and services provided without charge by the compiling country to foreign military forces stationed in the compiling country; these goods and services are excluded from items 1.1, 1.3, and 1.5, credit. The debit entry covers goods and services provided without charge by foreign countries to the compiling country's military forces stationed abroad; these goods and services are excluded from items 1.1, 1.3, and 1.4, debit (see note to item 1, paragraph 268).

TABLE VIII. OTHER SERVICES

Compiling Country .... Period Covered ....

Currency ....Unit .... Exchange Rate: US$ ....Per....................

Item	Credit	Debit
1. Nonmerchandise insurance (1.1 through 1.4 = Table A, item 8.1)		
1.1. Premiums on direct insurance		
1.2. Claims on direct insurance		
1.3. Premiums on reinsurance		
1.4. Claims on reinsurance		
2. Other (2.1 through 2.12 = Table A, item 8.2)		
2.1. Personal income		
2.2. Management fees		
2.3. Underwriters' commissions		
2.4. Agents' fees		
2.5. Construction activity		
2.6. Communications		
2.7. Advertising		
2.8. Subscriptions to press		
2.9. Film rentals		
2.10. Copyrights and patent royalties		
2.11. Real estate rentals		
2.12. Other		
3. Total (1 plus 2 = Table A, item 8)		
*4. Memorandum item: factor income		

*Item specified for reconciliation with national accounts.

NOTES TO ITEMS IN TABLE VIII

291. The transactions specified in the items of this table cover the most usual types of goods and services that are not included in Tables I-VII; however, the list is not intended to be exhaustive.

Item 1: Nonmerchandise insurance

292. Table III.B covers direct insurance of risks involved in the international shipment of goods and gold. Table VIII, item 1, covers all other direct insurance and all reinsurance, including reinsurance of the shipment of goods. See Notes to Items in Table III.B (paragraph 217) for treatment of foreign branches and subsidiaries of insurance companies.

293. The recording of life insurance transactions (including contractual pensions and contributions to pension funds) in accordance with the principles of national accounting gives rise to certain conceptual problems, which are discussed below.

294. Three aspects of life insurance transactions may be distinguished. First, life insurance premiums represent additions to, and life insurance claims payments represent withdrawals from, the funds which the insurance companies have set aside as cover for future claims on the basis of an actuarial calculation (hereinafter referred to as their life funds). Life funds, including the interest accrued on them, constitute savings of the policy holders; therefore, changes in residents' share of the life funds of foreign insurance companies are appropriate to the capital account of the balance of payments. Second, the interest accruing on the policy holders' accumulated shares of the life funds of the insurance companies represents investment income and should be recorded in Table VI. Third, part of insurance premiums and interest accruals, net of claim payments, is used to cover the administrative cost of the insurance companies, including their profits. This part, which represents payment for a pure insurance service, is the only element of life insurance transactions that is appropriate to Table VIII, item 1.

295. The entries may be calculated as follows in accordance with the theoretical treatment outlined above.

Transactions of Domestic Life Insurance Companies with Nonresidents

	Credit	Debit
1. Premiums received	100	
2. Claims paid		30
3. Accrued interest on life funds (contra-entry to Table VI, item 3.6 debit)	20	
4. Increases in life funds (contra-entry to Table XI, item 4.8, credit)		60
5. Total (1 through 4)	120	90
6. Insurance service (credit balance of total: enter in Table VIII, item 1, credit)	30	

296. It will be seen from this example that the three entries made in the balance of payments for life insurance transactions (debit of 20, credits of 60 and 30) have the same balance as premiums and claims (credit of 70). Transactions of resident policy holders with foreign life insurance companies would give rise to entries exactly opposite to those described above.

297. Contractual pensions and contributions to pension funds are similar to life insurance transactions and should, in principle, be treated in the same way as life insurance in the balance of payments. When part of the contribution to pension funds is paid by the employer, this part, in principle, should be regarded as earnings of the employee (item 2 of Table VIII) offset by a contribution paid by him (a life insurance transaction, item 1 of Table VIII).

298. Since direct international life insurance transactions and pensions are usually negligible, it may be expedient to follow some simplified procedure instead of the theoretical procedure outlined above. If so, premiums and claims on life insurance (in the example, the credit of 100, and the debit of 30) may be entered without any adjustments in item 1 of Table VIII, with no entries in the other tables. Similarly, contractual pensions and contributions to pension funds may be entered, together with noncontractual pensions, in Table IX or X.

Item 2.1: Personal income

299. The credit entry covers earnings of residents who are employees of foreigners other than central governments and international organizations, including crews on foreign-operated carriers. The debit entry covers mainly earnings of foreigners who are employees of residents other than the central government of the compiling country, including crews on domestically operated carriers (see Notes to Items in Table IV, items 3.2 and 8.2, paragraphs 233 and 241). The entries should, in principle, cover gross earnings (including taxes, and contributions by both employees and employers to pension funds) with separate and opposite entries in this table or in other tables for expenditures by the worker outside his country of residence. Taxes paid by residents to foreign governments on the earnings should be entered in Table IX, item 1.1, debit, and taxes received by the compiling country's government from foreigners in Table X, item 2.2, credit; contributions to pension funds in Table VIII, item 1, or in Tables IX or X; foreign expenditures of crews for goods and services in Table IV, items 3.2 and 8.2; and expenditures of other workers (including migrants) for goods and services in Table VIII, item 2.12. For statistical reasons, however, the entries in item 2.1 usually cover earnings net of these expenditures.

300. This item excludes earnings of employees who are considered to have migrated to the country where they work, i.e., become residents of that country; the remittances of such migrants to their former home countries should be entered in Table IX.

301. This item also includes any other transactions treated as factor income in national accounts and not included in the preceding tables, together with personal nonfactor services, e.g.,

those of a professional character, performed by residents of the compiling country for foreigners (credit) or by foreigners for residents of the compiling country (debit). The difference between factor and nonfactor services—a distinction which is made for reconciliation with national income and product statements—is that nonfactor services comprise the remuneration of the factor (here the person concerned) and, in addition, an element of cost of another kind, e.g., the overhead cost of a physician or a lawyer, whereas the factor service does not include such a cost element. Insofar as the entries represent factor services, they should also be entered in item 4.

Item 2.2: Management fees

302. This item covers management fees and reimbursements for home office expenses received by parent companies in the compiling country from their foreign branches and subsidiaries (credit); and such fees and reimbursements paid to parent organizations abroad by branches and subsidiaries located in the compiling country (debit).

Item 2.3: Underwriters' commissions

303. Commissions earned by residents of the compiling country on underwriting the issue of foreign private securities in the compiling country should be entered as credits, and commissions earned by foreigners on underwriting the issue of domestic private securities abroad should be entered as debits. The capital movements entered in Tables XI and XII should not be net of such commissions. Underwriting fees on issues of government securities should be entered in Table VII, item 2.4 or item 2.5.

Item 2.4: Agents' fees

304. This item covers services rendered by domestic agents to their foreign principals (credit) and services rendered by foreign agents to principals who are residents of the compiling country (debit). The credit entry should include fees paid by foreign exporters and importers to agents in the compiling country, and the debit entry, fees paid by exporters and importers in the compiling country to foreign agents.

Item 2.5: Construction activity

305. Services rendered to foreigners by construction contractors who are residents of the compiling country but perform work abroad (credit) and services rendered to the compiling country by foreign construction contractors (debit) should be entered in this item. Such services include, e.g., construction of port facilities, roads, dams, and refineries and other plants. The value of the services received by the country where the construction takes place covers the foreign cost of the construction project, excluding imports of goods incorporated or used up in the project, which should be entered in Table I. The foreign costs include wages of foreign personnel engaged on the project, depreciation of the construction contractor's equipment not used up in the project, and the contractor's profits. The contractor's equipment sold locally after use on the project should also be entered in this item if not recorded in Table I.

306. If a contractor is considered to have set up a business enterprise in the country where the construction takes place, this enterprise should be treated as a resident of that country, i.e., as a direct investment enterprise. The foreign transactions of this enterprise should be treated like those of other direct investment enterprises, e.g., the contractor's earnings should be entered in Table VI, item 1, rather than in Table VIII.

Item 2.6: Communications

307. This item covers international settlements on account of post, telegraph, telephone, and radio. It should exclude both earnings on direct investment, which should be entered in Table VI, item 1, and direct payments to transportation companies, which should be entered in Table IV, item 4 or item 9.

Item 2.8: Subscriptions to press

308. This item should exclude any publications included in Table I.

Item 2.9: Film rentals

309. This item covers rentals on exposed motion-picture film not bought by the importing country. To avoid double counting, the films are excluded from Table I.

Item 2.11: Real estate rentals

310. The credit entry covers gross receipts, not included elsewhere, from foreigners other than central governments and international organizations for lease of real estate in the compiling country, including imputed gross rentals on real estate owned by such foreigners in the compiling country. The debit entry covers gross payments, not included elsewhere, by residents other than the central government to foreigners for lease of real estate abroad, including imputed gross rentals on real estate abroad owned by such residents. (See "Underlying Principles," section 3(c), paragraph 12, and General Note to Table VI, paragraphs 247-48.)

Item 2.12: Other services

311. This item covers workers' expenditures (see note to item 2.1, paragraph 299) and miscellaneous services not specified above, e.g., membership dues, rentals, other than those on films and real estate, and transactions in goods and services that cannot be classified in the appropriate accounts, for statistical reasons. It includes profits (credit) or losses (debit) on arbitrage transactions in foreign exchange with foreigners (paragraph 163) and commissions and handling charges on gold (paragraph 182).

Item 4: Factor income

312. This memorandum item is equal to item 2.1, except that personal nonfactor services performed by residents for foreigners or by foreigners for residents of the compiling country are excluded (see note to item 2.1, paragraph 301).

GENERAL NOTE TO TABLE IX

313. Transfer payments are the counterparts of international transactions, whether gifts or compulsory transfers, which lack a quid pro quo (see paragraph 65). Where goods are sent or services rendered by one country to another without a quid pro quo, the primary entry is in the goods and services account, and the counterpart of this is called a "transfer payment in kind." Where the item transferred is cash or a financial claim, which results in a change in the assets or liabilities of the two countries, the primary entry is in the capital account and the counterpart is called a "transfer payment in cash."

314. In addition to genuine transfers between private residents and all foreigners, Table IX covers the so-called migrants' transfers, which are discussed in paragraphs 34-37 of "Underlying Principles." Migrants' transfers refer to that real and financial capital which is effectively transferred by migrants from their old to their new country in connection with their migration, and the entries for migrants' transfers account for the corresponding change in wealth of the two countries. A real capital asset is assumed to be effectively transferred when it is physically moved from country to country. Financial assets are assumed to be effectively transferred when residents of the new country acquire foreign assets from the immigrant or the immigrant acquires liabilities of the new country from nonresidents of that country; conversely, from the standpoint of the old country, there is an effective transfer when the emigrant disposes of foreign assets to nonresidents of that country, or when nonresidents acquire liabilities of the old country from the emigrant.

TABLE IX. PRIVATE* TRANSFER PAYMENTS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ ....Per ....

Item	Credit	Debit
1. To and from foreign governments (1.1 through 1.4 = Table A, item 9.1)		
1.1. Income taxes		
1.2. Other taxes and fees		
1.3. Noncontractual pensions		xxx
1.4. Other		
2. Other (2.1 through 2.3 = Table A, item 9.2)		
2.1. Institutional in cash		
2.2. Institutional in kind		
2.3. Other		
3. Total (1 plus 2 = Table A, item 9)		

*All residents other than the central government.

NOTES TO ITEMS IN TABLE IX

Item 1.1: Income taxes

315. This item covers taxes paid by the private sector of the compiling country to foreign governments (debit) and refunds of such taxes (credit). The item includes taxes levied on the recipients of investment income (see General Note to Table VI, paragraph 250), and on workers' earnings (see note to item 2.1 of Table VIII, paragraph 299).

Item 1.2: Other taxes and fees

316. Payments by the compiling country's private sector to foreign governments for such items as visa fees, tourist landing fees, and fees for fishing rights and registration of vessels under a country's flag are included in the debit entry for reconciliation with national accounts, since these items are treated as transfer payments in those accounts.

Item 1.3: Noncontractual pensions

317. Noncontractual pensions paid by foreign governments, including international organizations, to the private sector in the compiling country are included here. For the treatment of contractual pensions, see note to item 1 of Table VIII, paragraphs 293-98.

Item 1.4: Other

318. The credit entry includes students' grants, foreign government lottery prizes, and war damage claims and other indemnities received by the private sector of the compiling country from foreign governments. The debit entry includes fines paid by the private sector to foreign governments and purchases of foreign government lottery tickets; it also includes levies paid to intergovernmental organizations such as the European Community for Coal and Steel (ECCS).

319. When foreign governments take over title to foreign assets of the compiling country's private sector without any payment or other compensation, the consequent decrease in the compiling country's foreign assets is offset by a debit entry in this item. Subsequent returns or compensations are entered as credits in this item.

Items 2.1 and 2.2: Institutional transfer payments

320. These items cover all transfer payments between private institutions, including enterprises, and between private institutions and individuals. Such transfer payments include missionary, educational, and other benevolent contributions; private lottery tickets and prizes; private compensation payments for private damages and noncontractual pension payments. (See note to item 1 of Table VIII, paragraph 293, for treatment of contractual pensions.)

Item 2.3: Other

321. This item covers all transfer payments between individuals, including migrants' transfers (see General Note to Table IX, paragraph 314). The main components are migrants' transfers of real and financial capital in connection with their migration: transfers by immigrants (credit) and transfers by emigrants (debit); legacies and dowries received (credit) and paid (debit); and the recurrent transfer payments received by individuals of the compiling country from emigrants (credit) and made to foreigners by immigrants (debit). Major components of this item should be specified in explanatory notes.

GENERAL NOTE TO TABLE X

322. This table covers transfer payments between the compiling country's central government and all foreigners, including international organizations. Such transfer payments include reparations, other compulsory or contractual transfers, and grants. The credit entries cover transfer payments received by central government institutions of the compiling country from foreigners; those received from foreign government institutions should be entered in item 1 and those received from other foreigners (hereinafter referred to as foreign private sectors) in item 2. The debit entries cover all transfer payments made by the compiling country's government institutions to foreigners; those to foreign government institutions should be entered in item 1 and those to foreign private sectors in item 2.

323. Transfer payments in cash are the counterparts of capital and monetary gold transferred without a quid pro quo and included in Tables XI-XVI; such capital items consist mainly of money and other short-term assets and of titles to investments. Transfer payments in kind are the counterparts of merchandise transferred without a quid pro quo and included in Table I, and of merchandise transactions abroad included in the same table, when the goods procured abroad are transferred as gifts to other foreign countries (see General Note to Table I, paragraph 125). Other transfer payments cover the counterparts of goods and services provided without a quid pro quo and included in Tables II-VIII; such goods and services consist mainly of transportation, students' expenditures, and technical assistance under official aid programs.

324. Transfer payments in cash also include the cost of goods and services purchased by one country in another country and given back to the country of purchase. Such purchases are not entered in Tables I-VIII as gross debits and credits, but are treated as the counterpart of the cash transferred from the purchasing country to the selling country.

TABLE X. CENTRAL GOVERNMENT TRANSFER PAYMENTS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Credit				Debit			
	Cash	Merchandise	Other	Total	Cash	Merchandise	Other	Total
1. Intergovernmental (1.1 through 1.6 = Table A, item 10.1)								
1.1. Reparations								
1.2. Military direct grants								
1.3. Military offshore grants	xxx				xxx			
1.4. Other direct grants								
1.5. Other offshore grants	xxx				xxx			
1.6. Other								
2. Other (2.1 through 2.3 = Table A, item 10.2)								
2.1. Grants								
2.2. Taxes		xxx	xxx			xxx	xxx	
2.3. Other								
3. Total (1 plus 2 = Table A, item 10)								

NOTES TO ITEMS IN TABLE X

Item 1.1: Reparations

325. This item covers indemnities imposed under peace treaties. Other indemnities and voluntary payments of damage claims should be entered in items 1.2, 1.3, 1.4, 1.5, 1.6, 2.1, or 2.3. Restitutions of identical goods and capital items to rightful owners are not included anywhere in the balance of payments.

Items 1.2 and 1.3: Military grants

326. These items cover grants of military supplies and any services connected with them, e.g., freight on such supplies; grants of other services under military aid programs (see Notes to Items in Table VII, paragraph 275); and cash grants for support of military budgets. Contributions to common defense installations, and costs of supporting military forces stationed outside their own country whether borne by their own government or the country where they are stationed, are not included (see Notes to Items in Table VII, paragraph 268).

Items 1.4 and 1.5: Nonmilitary grants

327. These items cover economic aid grants and other voluntary, noncontractual grants.

328. Any payments by a country for goods and services it originally received as grants should be entered as reverse grants; such payments made by the compiling country should be entered as debits, and any such payments received by the compiling country as credits.

329. When portions of local counterpart funds arising from grants are transferred to the granting country by the receiving country, the portions transferred should be treated as reverse grants.

Items 1.2 and 1.4: Direct grants

330. The credit entries cover the counterparts of goods, services, and cash received without a quid pro quo by the compiling country directly from the granting countries. The credit entry for cash grants also includes goods and services purchased by foreign countries from the compiling country and given back to the compiling country. The debit entries cover the counterparts of goods exported, and services rendered directly by the compiling country to the receiving countries without a quid pro quo, and cash turned over without a quid pro quo by the compiling country to foreign countries. The debit entry for cash grants also includes goods and services purchased by the compiling country from a foreign country and given back to that country.

Items 1.3 and 1.5: Offshore grants

331. The credit entries cover the counterparts of goods and services received by the compiling country from one foreign country but paid for by another (the granting) country. The debit entries cover the counterparts of payments for goods and services purchased by the compiling country in one foreign country and given away to another foreign country.

Item 1.6: Other intergovernmental

332. This item includes contributions by the compiling country's central government to international organizations for administrative expenses, since such contributions are treated as transfer payments in national accounts. It also includes counterparts to voluntary debt cancellations if the cancellations are entered in the capital account, and voluntary indemnity payments not included in the preceding items. When the compiling country's central government takes over title to foreign government assets in the compiling country without any payment or other compensation, the consequent decrease in the compiling country's foreign liabilities is offset by a credit entry in this item. Subsequent returns or compensations are entered as debits in this item. Similarly, the debit entry includes the taking over by foreign governments of title to foreign assets of the compiling country's government institutions, and the credit entry includes subsequent returns of or compensation for such assets.

Item 2.1: Grants (not intergovernmental)

333. This item covers grants by the compiling country's government to foreign private individuals and institutions, such as noncontractual pension payments, students' grants, and war damage claims and other indemnities (debit), and refunds of such grants (credit). The credit entry also includes grants to governments from foreign private sectors such as technical assistance rendered by private institutions without a quid pro quo.

Item 2.2: Taxes

334. This item includes income taxes paid by foreigners to the compiling country's government (credit) and refunds of such taxes (debit); see General Note to Table VI, paragraph 250. It also includes receipts by the compiling country's government from foreigners for such items as fines, visa fees, tourist landing fees, and payments for fishing rights and registration of vessels, since these transactions are treated as transfer payments in national accounts.

Item 2.3: Other

335. Tickets and prizes for lotteries sponsored by the compiling country's government, the taking over by that government of title to assets held in the compiling country by foreign private individuals and institutions, and subsequent returns or compensations (see note to item 1.6, paragraph 332) are included in this item. Receipts for lottery tickets and the taking over of title to private assets are entered as credits; lottery prizes and returns of or compensation for assets previously taken over are entered as debits. (Lottery tickets and prizes are treated as transfer payments in national accounts.)

GENERAL NOTE TO TABLES XI-XVI

336. These tables specify the information ideally required for the construction of the capital account of a balance of payments, and they show the derivation of the entries for movements of capital and monetary gold in Table A, Part 2. The nature of the transactions entering the capital account is discussed in the "Underlying Principles" (see particularly paragraphs 19, 30-32, 37, and 54-55).

337. Each of the tables covers changes at transactions values in the assets and liabilities of a sector in the compiling country. Tables XI and XII are both devoted to the private sector. The other sectors distinguished are local government (Table XIII), central government (Table XIV), central monetary institutions (Table XV), and other monetary institutions (Table XVI).

338. The two sectors referring to monetary institutions may be regarded as subdivisions of a single monetary sector and can therefore usefully be combined for many purposes, e.g., when the impact of international transactions on the domestic money supply is analyzed. The sectors for local and central government, however, cannot be regarded as subdivisions of a single government sector for balance of payments analysis, because the international transactions of local governments are in many respects more like those of the private sector than those of the central government. Local government obligations more closely resemble private corporate securities than central government obligations as regards marketability abroad; and local governments can usually borrow abroad only in the market, in much the same way as private corporations, whereas the central government is often able to borrow from foreign governments on more favorable terms than in the market, or in situations where borrowing in the market is not possible. The local government sector may therefore be combined with the private sector for many analytical purposes.

(1) Definition of sectors

339. While the following definitions indicate the general coverage of the various sectors, the border lines between them should be interpreted with reference to the particular institutional organization in the compiling country. The sector classification of the balance of payments data is mainly intended to relate the balance of payments to developments in the domestic economy. It is therefore suggested that countries give priority in borderline cases to comparability between their balance of payments data and their sector finance statistics, rather than to comparability between their balance of payments data and the balance of payments data of other countries.

(a) Private sector

340. The private sector (Tables XI and XII) comprises resident individuals and nongovernmental enterprises and institutions, other than monetary institutions. The enterprises include both unincorporated businesses and corporations. In addition, public enterprises, including those established jointly by central or local governments and foreign investors, should generally be regarded as belonging to the private sector. Most such enterprises acquire foreign assets and liabilities (e.g., foreign exchange working balances and trade credits) for the same reasons as private enterprises, and the changes in their foreign assets and liabilities can therefore, from a behavior standpoint, usefully be attributed to the private sector. However, public enterprises functioning as monetary institutions (e.g., government-owned commercial banks) should always be included in the monetary sector. Institutions that are used primarily as instruments of central government policy (e.g., the Export-Import Bank of Washington and development banks) should be attributed to the central government. The attribution of public enterprises by sector must thus be decided on the basis of their function in the economy of each compiling country rather than on the basis of formal criteria. It should be noted that when public enterprises are financially integrated with local or central government, they will have no foreign assets and liabilities distinguishable from those of the particular government sector.

(b) Local and central government sectors

341. The sectors for local and central governments are defined to include all local (Table XIII) and central (Table XIV) government agencies, institutions, and enterprises, except the public enterprises that are assigned to the private sector (see previous paragraph) and monetary institutions, which are included in the monetary sector (see paragraphs 342-43). Included in the government sectors, however, are public enterprises financially integrated with the local or central government, and those nonmonetary institutions that have been established primarily as instruments of policy. Governments of states and provinces within a federation, union, or commonwealth which is the reporting unit are considered local governments.

(c) Monetary sector

342. The monetary sector falls into two parts. Central monetary institutions (Table XV), such as the central bank and an exchange stabilization fund, are the monetary authorities that hold the official gold and foreign exchange reserves, intervene in the exchange market, issue currency, or create reserve money for deposit money banks. Other monetary institutions (Table XVI), comprise the deposit money banks whose liabilities are primarily demand and other deposits, and savings banks or similar institutions whose liabilities closely resemble those of the deposit money banks. Central monetary institutions are usually governmental, and other monetary institutions, private. In general, the coverage of the monetary sector in the compiling country will be the same as that of the monetary survey in the Fund's monthly bulletin, International Financial Statistics.

343. Some of the international transactions attributed to the central government sector (e.g., loans for balance of payments purposes and, for countries that are financial centers, changes in central government securities held by foreign monetary institutions as foreign exchange reserves) have a function similar to transactions of central monetary institutions and may for some analytic

purposes be combined with these, or with the transactions of the monetary sector as a whole. On the other hand, some of the transactions of private banks in the monetary sector (e.g., loans and, sometimes, changes in foreign exchange holdings) may be similar in function to changes in the foreign assets and liabilities of the private sector and may be combined with these for purposes of analysis. To permit such recombinations of data the separation of central and other monetary institutions is significant.

(2) Principle of sector attribution

344. Except as specified in paragraph 347, changes in assets and liabilities should be attributed to the sector of the domestic creditor (of an asset) or debtor (of a liability).

345. When changes in assets are based on a record of transactions, the domestic creditor is the resident that carries out the transaction with the foreign party, the transaction representing a resident-foreigner transaction. On the other hand, when transactions in assets are derived from outstanding amounts at the beginning and end of the reporting period, the change in a sector's holdings may result not only from its net international transactions in assets of the given type, but in part also from domestic transactions with other sectors. However, since the balance of payments is defined to include transfers of foreign assets not only between residents and foreigners but also between domestic sectors, the classification of changes in foreign assets by domestic creditor always coincides with that by domestic transactor.

346. Transactions in liabilities are also generally carried out by the domestic debtor. When this occurs, the attribution to the sector of the domestic debtor coincides with that to the sector of the domestic transactor. The only major exceptions to this coincidence arise from transactions in domestic securities in the domestic capital market. For instance, a security issued by the domestic government (debtor) may be sold to a foreign party by a member of the private sector (transactor). Such a transaction will be attributed to the domestic sector that is the debtor (e.g., the government) rather than the sector that carries out the transaction (i.e., the private sector).

347. The classification by domestic sectors is introduced to distinguish in a systematic way categories of transactions with different behavior and function in the settlement of international transactions. The sector classification is therefore subordinated to this major purpose. This necessitates three exceptions being made to the principle of attributing transactions to the sector of the domestic creditor or debtor. First, all transactions with the International Monetary Fund are allocated to central monetary institutions, regardless of whether they are carried out by such an institution or by the central government. Second, net long-term claims of domestic monetary institutions on their foreign branches and subsidiaries are entered in the private sector as direct investment. Similarly, net long-term foreign liabilities of those domestic monetary institutions that are branches or subsidiaries of foreign enterprises are allocated to the private sector as direct investment. Third, other transactions in securities issued by domestic monetary institutions, which from a behavior standpoint are quite similar to transactions in other corporate securities and which cannot readily be distinguished in the statistics from these, are allocated to the private sector.

348. Loans received or extended by the private sector of the compiling country, even if guaranteed by its central government, should be allocated to the private sector. Although guaranteed loans may reflect government policy, the decisions of the private sector in regard to them are determined by much the same commercial motives that govern its other international loan transactions. Moreover, their allocation to the central government sector would complicate unnecessarily the use of balance of payments statistics in combination with statistics on government finance or with a set of sector finance accounts covering the economy as a whole. Loans received or extended by local governments or by monetary institutions under guarantee of the central government should similarly be allocated to the sector of the domestic creditor or debtor rather than to the central government sector.

(3) Subclassification by foreign sector

349. To interpret movements in liabilities to foreigners, it is sometimes as important to know the identity of the foreign creditor as that of the domestic debtor. This is particularly true for changes in such liabilities of the compiling country as bank balances or central government securities, which constitute liquid assets from the point of view of the foreign holder. The behavior of these items depends on whether they represent private funds, government surplus funds, or foreign exchange reserves held by foreign monetary institutions. For this reason, the note to item 1.4 of Table XIV (paragraph 412), suggests that a classification by foreign sector of changes in foreign holdings of central government securities issued in the domestic market be given in the explanatory notes to the balance of payments statement. A subclassification by sector is also provided for foreign deposits in Tables XV and XVI. These subclassifications are significant mainly for countries whose liabilities are held by foreign monetary institutions as foreign exchange reserves.

(4) Long-term and short-term capital

350. To be analytically useful, a distinction between long-term and short-term capital should be based on the behavior of the capital movements, which is related to the liquidity of the assets or liabilities. Short-term capital movements would cover movements likely to be, or at least capable of being, reversed in the short-term, say from one year to the next. Long-term capital movements would cover movements likely to be reversed only over a period of several years, or not at all. A division of capital into long-term and short-term on the basis of any practicable criterion, such as original maturity, does not necessarily conform with behavior and cannot therefore be regarded as the classification that is most useful from the standpoint of analysis. For this reason, the distinction between long-term and short-term capital is used in this Manual only on a selective basis.

351. Changes in foreign assets and liabilities attributed to the private sector have been divided into two major categories, described as long-term (Table XI) and short-term (Table XII). Those attributed to the central government (Table XIV) are subdivided into long-term and short-term items. Long-term capital is defined as all direct investment capital (see paragraphs 353-54) and other assets and liabilities that have either no maturity (like equities) or an original maturity

of more than 12 months. Short-term capital is defined as assets and liabilities, other than direct investment capital, with an original maturity of 12 months or less. The division of the capital movements attributed to the private sector into the two groups is made mainly to facilitate the exposition, since different methods are usually followed in recording the two types of capital distinguished. The types covered by Table XI (long-term capital) are usually derived from a record of transactions, whereas those covered by Table XII (short-term capital) are usually derived from changes in outstanding assets and liabilities; the two tables are drawn up in accordance with these methods.

352. A similar distinction is not made for assets and liabilities of local governments and monetary institutions (Tables XIII, XV, and XVI). Rather than divide the capital held by these sectors into long-term and short-term on the basis of a formal criterion, an effort is made to distinguish subcategories that are typically long-term or typically short-term in behavior.

(5) Direct investment

353. One of the most important types of international capital movements comprises direct investment, i.e., investment in enterprises in which the investor, or a group of investors, holds a controlling interest. Since this type of investment is significant mainly for the private sector, a full definition of the concept of direct investment is given in the General Note to Table XI (paragraph 367).

354. For direct investment, no realistic distinction between long-term and short-term capital movements can be made on the basis of general criteria. In the private sector, where the movements are predominantly long-term in behavior, all movements of direct investment capital have been uniformly classified as long-term. In the sector for monetary institutions, the direct investment movements are predominantly short-term, as are other capital movements attributed to the monetary sector. If a long-term component of direct investment in monetary institutions can be distinguished, however, it should be entered in Table XI as part of private direct investment. Other changes in direct investment in monetary institutions should be shown in Tables XV and XVI. These changes are, however, not entered separately in Table A, Part 2, since they are not believed to differ significantly in behavior from other transactions of monetary institutions.

(6) Gross or net recording

355. Capital movements should generally be entered on a net basis within each category, separately for assets and liabilities. Gross entries may, however, be desirable in certain cases as background information and for particular analytical purposes. Where gross entries are desired in balance of payments reports, two items have generally been provided in the relevant capital account tables, one for inward movements (credits) and one for outward movements (debits); see, for example, items 4.4 and 4.5 of Table XI. Such items should also be transferred to Table A on a gross basis. Moreover, for new issues, retirements, and refunding operations in any type of security, both the obligations paid off and the new ones issued should be entered separately in the detailed tables and in Table A. These tables, however, have been set up in such a way that

gross recording can be employed whenever the compiling country considers this significant for a particular category. Even though some types of transaction are thus entered on a gross basis, the totals for the main items of Table A, Part 2 (items 11, 12, etc.) and the totals entered in each of the detailed tables should show net balances only.

(7) Miscellaneous problems of coverage and timing

356. Undistributed earnings of direct investment enterprises should be included both in investment income (see Table VI) and in the relevant capital account tables, for the reasons indicated in section (5) of "Underlying Principles," paragraph 24. Undistributed profits arising from other investments should not be entered in the balance of payments.

357. Nominal changes in assets and liabilities reflecting issues of stock dividends or bonus shares should not be included in the tables. These changes involve an increase in the nominal capital of the issuing corporation and are not accompanied by any movement of funds or real assets. They do not, therefore, represent international movements of capital.

358. Underwriting fees and commissions on issues of securities should not be netted against the capital movements entered in Tables XI-XVI; see Notes to Items in Table VII (paragraph 287) and Notes to Items in Table VIII (paragraph 303).

359. The commitment or pledging of an asset does not constitute an economic transaction, as defined in this Manual. Thus, gold or foreign assets pledged as collateral or set aside to meet future payments should be included in the outstanding amounts shown in Tables XII, XV, and XVI, and a change in assets should not be entered unless the collateral is forfeited or a payment is actually made during the given period. Conversely, the amount of a loan that should be entered in the tables for any given period should be the amount that the borrower has actually utilized, not the total credit commitment or authorization. The same principle applies to foreign liabilities. The creation of contingent liabilities should not be entered in the balance of payments, nor should liabilities be considered to have been extinguished simply because assets have been set aside for this purpose.

(8) Valuation principle

360. Movements of capital are usually derived either from a record of transactions between residents and foreigners, or by comparing balance sheets for the beginning and the end of the reporting period. Regardless of the method used, the movements of capital should be entered at transactions values, i.e., should exclude changes in assets and liabilities due merely to valuation changes or coverage (see "Underlying Principles," section (7), paragraphs 34-37).

361. When the entries are based on a record of transactions between residents and foreigners, the transactions value is directly given by the basic source. When entries are estimated from the change in outstanding assets and liabilities during the reporting period, the transactions value of the change may have to be derived indirectly by eliminating from the nominal increase or decrease those changes that have resulted merely from changes in book values or in coverage

rather than from transactions. When changes in assets and liabilities denominated in foreign currency are to be measured in terms of a stable unit of current domestic currency, the data should be converted at a single rate, usually the par value, rather than at the actual rates at which the individual transactions are carried out. (This principle of converting items at a single rate is usually followed in preparing balance sheets.) If changes in assets and liabilities denominated in foreign currency were converted into domestic currency at transactions rates, inward and outward movements of capital that are equal in terms of foreign currency would not be equal in terms of domestic currency because of the spread between buying and selling rates. For instance, a bank's sale of a given amount of foreign exchange might be recorded at a higher value in terms of domestic currency than its purchase of the same amount. The apparent loss of foreign exchange to the bank in terms of domestic currency that results under these circumstances in fact reflects the net domestic currency profit on the transaction. The use of a single rate eliminates this fictitious loss of exchange from the movement in foreign assets. Ordinarily, the difference between the unitary rate and the buying or selling rate can be regarded as a service charge by a monetary institution on the party with whom the foreign exchange transaction is conducted; the use of a single rate will hence not be a departure from the principle of recording transactions at the international transactions value.

362. Special problems of valuation arise, however, when countries have multiple exchange rates or a freely fluctuating unitary rate for their currencies during the reporting period. Such countries are requested to report in terms of a monetary unit with a fixed relationship to gold. When such a reporting unit is used, the transactions value of changes in foreign assets and liabilities denominated in foreign currency can, in principle, be estimated by the method used in countries with an effective par value for compiling such data in domestic currency. However, changes in assets and liabilities denominated in domestic currency are difficult to convert into a stable reporting unit at transactions value in countries that have no effective par value. Reference should be made to section (7) of "Basic Methodology" (paragraphs 100-105) for a discussion of the problems involved.

363. Certain problems of comparability and valuation may arise when the balance sheet method for estimating capital movements is used as in Tables XII, XV, and XVI. While this method is not used in constructing Tables XI, XIII, and XIV, the same problems may be present if certain items in these tables are in fact estimated from balance sheet data. Thus, changes from the beginning to the end of a period in holdings of foreign assets and liabilities derived from balance sheet entries may fail to reflect net changes at transactions value during the period for several reasons. First, the valuation basis may have changed as a result of changes in exchange rates. Reference should be made to the General Note to Tables XV and XVI (paragraphs 425-26) for an explanation of valuation problems in connection with changes in exchange rates. Second, holdings of securities and other credit instruments with a fluctuating market value may have been recorded in the balance sheets at either a nominal value, cost, or market value. Some holdings may have been written off entirely as bad debts. Third, the underlying balance sheet data may not be comparable for the beginning and the end of the reporting period as a result of changes in the institutions or in the assets and liabilities covered.

364. In countries having multiple exchange rates or a freely fluctuating unitary rate for their currency during the reporting period, the balance sheet data must be converted into the reporting unit directly from the currencies in which they are denominated. However, changes in balance sheet items denominated in domestic currency are difficult to express in the reporting unit at transactions values in countries that have no effective par value, and in these cases it is not possible to derive the entries in Table A, Part 2, from balance sheets by the method indicated in Tables XII, XV, and XVI. If the changes in the balance sheet items result from transactions in foreign currency, the transactions value of the changes should be measured by the amount of foreign currency involved, converted into the reporting unit if required. On the other hand, if these changes in domestic currency items have no counterpart in foreign exchange transactions (e.g., releases from blocked accounts for domestic use), they cannot be converted accurately into the reporting unit; a conversion can be made only on an estimated basis, e.g., by converting the amount in domestic currency at the rate applicable to the type of transaction to which the change is a contra-entry. Similar problems of valuation arise in estimating the transactions value of changes in foreign assets and liabilities denominated in foreign currencies for which no effective par values exist. The Fund staff would appreciate being consulted about any valuation problems of this sort that may arise in the compiling countries.

365. For a further discussion of the adjustments to balance sheet data for valuation and coverage, see General Note to Tables XV and XVI (paragraphs 422 and 424-28).

GENERAL NOTE TO TABLE XI

366. This table shows the entries for changes in private long-term foreign assets and liabilities, including all direct investment.

(1) Direct and portfolio investment

367. The term, direct investment, is used to refer to investment made to create or expand some kind of permanent interest in an enterprise; it implies a degree of control over its management. In the case of portfolio investment, on the other hand, the investor has no intention of playing a major role in the direction of policies of the enterprise; he is influenced by such considerations as marketability, income yield, possibilities for capital appreciation, tax advantages, exchange rate prospects, and safety of principal. Borderline cases exist between direct and portfolio investment, but a large part of all investment can in practice be distinguished as belonging to one or the other category. In Table XI, item 1 covers direct investment, and item 4 the clear cases of portfolio investment. Item 2 covers the capital in direct investment enterprises that is held by other than the controlling interest. Such investment is sometimes similar to direct investment capital and sometimes to portfolio capital, and in Table A it is allocated to one of the two categories, depending on which characteristic is predominant. Item 3 (capital in associated enterprises) covers investment in enterprises in which the investor has a business interest somewhat similar to an interest in a direct investment enterprise, but without exercising any form of managerial control. Such investment is undoubtedly more like direct investment than portfolio investment, but is sufficiently different from investment involving managerial control to warrant separate recording in Table A.

368. Most direct investment is made to expand an enterprise beyond the national boundaries of its home country, either by establishing factories and sales organizations abroad or by producing or procuring goods abroad for import into the home country or export to third countries. It is a characteristic of direct investment that the investor possesses managerial control over the enterprise in which the investment is made and that he also makes available to it his technical knowledge (know-how). For such reasons, some of the obstacles that usually stand in the way of international flows of private capital are absent in the case of direct investment.

369. Direct investment is distinguished as a separate category because it constitutes a significant part of the international flow of capital and has a behavior that is rather different from that of other types of capital movements. Since it is intended to create or expand a permanent interest in a business, direct investment is usually made in accordance with programs that cannot readily be modified in the short run, although changes of interest rates in the capital market may influence the degree to which the investor invites the participation of local capital. Once direct investment flows have taken place, they are not likely to be reversed, except through depreciation of assets or the liquidation of the investment. Direct investment is therefore less likely to vary in the short run with interest and exchange rates than are most other types of capital movements, although surplus funds of direct investment companies may move in response to these factors. Moreover, short-term fluctuations in direct investment may arise from changes in inventories, from payments of taxes to the country in which the investment is made, or from the accumulation and distribution of profits.

(2) Direct investment enterprises

370. While direct investment enterprises (i.e., enterprises in which nonresidents maintain some degree of managerial control) may take a number of organizational forms, two forms predominate: branches and subsidiaries. A branch is a part of an enterprise operating in a separate location. It is not a separate legal entity, but it has certain operational functions (e.g., production) that make it an integral part of the economy of the country in which it is located. A subsidiary is a corporation that is subordinate to another corporation or group of affiliates, i.e., the parent, which controls enough of its voting stock to exert an important influence on its policies.

371. An enterprise having a branch or subsidiary abroad is treated as a resident of more than one country. The branch or subsidiary and the head office are each treated as residents of the country in which they are located. If the management of an enterprise is domiciled in one country but most of the economic activity is concentrated in another country, it is convenient to treat the latter part of the enterprise as a branch. However, if an enterprise is incorporated in the country where the investment takes place, while the office maintained in the investors' country has no significant business functions, then the enterprise may more conveniently be regarded in its entirety as a resident of the country of investment. If the enterprise is not incorporated in the country of the investment but the head office in the investors' country is purely nominal, it may be desirable to treat the purely nominal head office in the investors' country as a branch.

372. It is not important to draw clear border lines between branches, subsidiaries, and other direct investment enterprises, nor is it desirable to give a rigid definition of the concept of the direct investment enterprise. The following definition of this concept should be applied with flexibility and interpreted by each country in the manner most useful for analyzing its balance of payments. In particular, the specific percentages suggested for determining whether a given enterprise is to be classified as a direct investment enterprise should be regarded as no more than rules of thumb.

373. From the point of view of the country of location, resident direct investment enterprises may be defined to include the following categories:

(a) Branches of foreign enterprises, incorporated or unincorporated, i.e., including branches of foreign sole proprietorships and partnerships.

(b) Other unincorporated enterprises operating separately in the compiling country but owned by nonresidents or in which nonresidents are controlling partners.

(c) Incorporated enterprises (such as subsidiaries) operating in the compiling country, in whose policies nonresidents exercise an important voice. In the absence of other information, the representation of specific groups of nonresidents on the board of directors, or the ownership of 25 per cent of the voting stock by a closely organized group of nonresidents, may be taken as evidence of direct control. When there is no evidence of direct control in local hands, ownership of 50 per cent of the voting stock by residents of one foreign country or of 75 per cent by all nonresidents may be taken as evidence of direct foreign control. Some corporations established jointly by resident central or local governments and foreign investors may fall into this category.

(d) Commercial real estate owned by nonresidents, if this category of direct investment enterprise does not take any of the forms mentioned above.

(3) Investment in direct investment enterprises

374. The foreign investment in resident direct investment enterprises consists of two types of capital, direct investment capital (item 1 of Table XI) and other capital (item 2 of Table XI). Direct investment capital is the (net) amount invested by the foreigners that have a material influence on the policies of the enterprise; it includes all investment in resident branches. "Other capital" in resident direct investment enterprises is the amount of capital invested in these enterprises by other foreigners. While this second category has some characteristics in common with portfolio capital, its behavior may also be influenced by the fact that foreigners have an important influence on the policies of the enterprises or may even administer them. In Table A, "other capital in direct investment enterprises" is allocated either to direct investment or to portfolio capital, depending on its characteristics in individual cases.

375. From the point of view of the country making the investment (say country A), "other capital in direct investment enterprises" can be identified as referring to such enterprises abroad (say in country B) only if they are controlled by investors from country A but not if they are controlled by residents of a third country (say country C). Some investment that is regarded by country B as "other" foreign investment in direct investment enterprises and is therefore entered in item 2 of Table XI must be entered as ordinary portfolio capital (item 4 of Table XI) by country A. This asymmetry is believed to be of little statistical significance.

376. It may be noted that direct investment enterprises are sometimes jointly controlled by investors from more than one country, e.g., when corporations in different countries combine to establish a new corporation. In such cases, the amount of capital invested in the new direct investment enterprise by each of the participating corporations should be regarded as direct investment capital even though no single investing corporation entirely controls the new corporation.

(4) Capital in associated enterprises

377. A special category (item 3 of Table XI) is set up for capital in associated enterprises, to cover a type of investment by corporations that is similar to direct investment in some respects but does not involve effective control. This type covers cases where a corporation in one country acquires a minority interest in, or grants a loan to, a corporation in another country in order to establish or confirm some working relationship between the two corporations in the technical field, in marketing policies, etc. It covers cases where the investment is a lower proportion (ordinarily about 25 per cent) of the voting stock than is necessary to classify it as direct investment but still constitutes a sufficient proportion (say 10 per cent as a minimum) of the voting stock to exercise some influence. Capital in associated enterprises is thus on the border line between direct investment capital (item 1 of Table XI) and ordinary portfolio capital (item 4 of Table XI) and covers some types of capital which are difficult to classify as one or the other. While investments of this type have become common in recent years between some of the most highly industrialized countries, the majority of compiling countries are not expected to report any data for such investments, as it can be assumed that the category will not be significant for them.

* * * * *

Columns (1) and (2): Assets

378. Transactions in foreign assets during the reporting period should be entered in the credit column (column 1) if they represent a decrease, and in the debit column (column 2) if they represent an increase. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

Columns (3) and (4): Liabilities

379. Transactions in foreign liabilities during the reporting period should be entered in the credit column (column 3) if they represent an increase, and in the debit column (column 4) if they represent a decrease. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

TABLE XI. PRIVATE LONG-TERM FOREIGN ASSETS AND LIABILITIES

(Including All Direct Investment)

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per..........

Item	Assets (Net) Credit (decrease) (1)	Assets (Net) Debit (increase) (2)	Liabilities (Net) Credit (increase) (3)	Liabilities (Net) Debit (decrease) (4)	Transfer to Table A (Part 2) (5)
1. Direct investment capital (1.1 through 1.5)					11.1
1.1. Net investment in branches					
1.2. Common stocks					
1.3. Other securities					
1.4. Other intercompany debts					
1.5. Undistributed earnings					
2. Other capital in direct investment enterprises (2.1 through 2.4)					11.1*
2.1. Common stocks					(11.3)*
2.2. Other securities					(11.5)*
2.3. Loans					(11.6)*
2.4. Undistributed earnings					(no entry)*
3. Capital in associated enterprises (3.1 through 3.4)					11.2
3.1. Common stocks					
3.2. Other securities					
3.3. Loans					
3.4. Other					
4. Other					
4.1. Common stocks					11.3
4.2. Foreign central government securities			xxx	xxx	11.4
4.3. Other securities					11.5
4.4. Use of trade credits	xxx			xxx	11.6
4.5. Repayments on trade credits		xxx	xxx		11.6
4.6. Drawings on loans	xxx			xxx	11.6
4.7. Repayments on loans		xxx	xxx		11.6
4.8. Other					11.7
5. Net credit or debit balance (1 through 4)					11

* Either the total for item 2 should be entered in item 11.1 or the amount for each subitem should be entered in the respective item indicated in parentheses.

NOTES TO ITEMS IN TABLE XI

Item 1: Direct investment capital

380. This item covers the changes in the net capital invested by controlling groups of private residents of the compiling country in direct investment enterprises abroad (assets) and by controlling groups of nonresidents in such enterprises in the private sector of the compiling country (liabilities). It also includes changes in the net long-term investment of domestic monetary institutions in their foreign branches and subsidiaries (assets) and of nonresidents in domestic monetary institutions that are branches and subsidiaries of foreign enterprises (liabilities); see paragraph 347. Item 1.1 covers investment in branches; items 1.2-1.5 cover investment in corporate direct investment enterprises, mainly subsidiaries. See para 373

381. It may sometimes be possible to subdivide the total net changes in item 1 into components that are typically long-term or short-term in behavior. Short-run fluctuations in direct investment may arise from changes in inventories, from the payment of local income taxes, or from the accumulation and distribution of profits or other factors. If such elements can be distinguished, the significant details should be given in explanatory notes. This is particularly important for reports covering less than a year.

Item 1.1: Net investment in branches

382. For assets, this item covers changes in the net investment of a resident head office in branches abroad. For liabilities, the item covers changes in the net foreign investment in resident branches of a foreign enterprise. Where a single legal entity has its head office in one country and its main activity in another, the enterprise is, for balance of payments purposes, divided into two units, a head office and a branch; the entry to be made in item 1.1 consists of the changes in assets of the enterprise in the country of main activity, net of liabilities to residents of that country. If, however, the head office is purely nominal, the functions of the enterprise may have to be divided differently; see General Note to Table XI (paragraph 371). In principle, the change in net investment in branches should be entered net of provisions for depreciation and for depletion of natural resources and should be adjusted to exclude any windfall gains and losses.

Items 1.2 and 1.3: Common stocks and other securities

383. The amounts of new issues and retirements should be specified in accompanying notes.

Item 1.4: Other intercompany debts

384. For assets, this item covers changes in intercompany debts other than common stocks and other securities, e.g., in the accounts of resident parent organizations and their affiliated organizations in the investing country with subsidiaries and other affiliated organizations (except branches) abroad. For liabilities, the item covers changes in intercompany debts of the same kind, *mutatis mutandis*.

Item 1.5: Undistributed earnings

385. Changes in the undistributed earnings of corporate direct investment enterprises should be attributed to the holders of the common stock. Total undistributed earnings of a corporation should be prorated between residents and nonresidents on the basis of the percentage of common stock owned by each group, and the portion attributed to the nonresident stockholders of the corporation should be divided between this item and item 2.4 on the same basis. The entries in both items are offset in Table VI, item 1, direct investment income. Undistributed earnings of branches, which cannot be distinguished from total net investment in branches, are included in item 1.1, and similarly have a contra-entry included in Table VI, item 1. The treatment of depreciation, depletion of natural resources, and windfall gains and losses is the same as in item 1.1 (paragraph 382).

Item 2: Other capital in direct investment enterprises

386. For assets, this item covers changes in long-term capital invested, by residents outside the controlling group, in direct investment enterprises abroad controlled by residents of the compiling country. For liabilities, it covers changes in long-term capital invested in direct investment enterprises in the compiling country by nonresidents outside the controlling group. The item includes all foreign investment in direct investment enterprises (other than branches) in which foreigners hold 50 per cent or more of the total capital, but in which an organized group of shareholders cannot be identified. When changes in the assets and liabilities that are included in this item are transferred to Table A, they should be allocated either to the direct investment category or to the appropriate categories of ordinary portfolio capital, depending on whether the compiling country considers the direct or portfolio investment characteristics to be predominant.

Item 2.4: Undistributed earnings

387. See note to item 1.5 (paragraph 385).

Item 3: Capital in associated enterprises

388. See General Note to Table XI (paragraph 377).

Items 4.1-4.3: Common stocks, foreign central government securities, and other securities

389. For assets, these items include participation by residents in new issues; retirements of foreign securities held by residents; and transactions in existing foreign securities in the domestic market and abroad, including transactions with other domestic sectors, especially the monetary sectors. For liabilities, the items include new issues and retirements abroad of domestic corporate securities (including stocks issued by banks) purchased by foreigners; participation by foreigners in new domestic issues of such securities; and transactions between residents and foreigners in existing domestic securities (including bank securities) in domestic and foreign markets. The amounts for new domestic issues abroad and new foreign issues in the domestic market should be specified in explanatory notes. Changes in holdings of securities of international lending institutions such as the IBRD should be included with foreign central government securities in item 4.2. For the treatment of equity securities issued by domestic monetary institutions, see General Note to Tables XI-XVI, section (2), paragraph 347.

Item 4.4: Use of trade credits

390. This item includes, under assets, ordinary trade and suppliers' credits extended, and credits (prepayments) extended to suppliers; under liabilities, ordinary trade and suppliers' credits received, and credits (prepayments) received by suppliers. Explanatory notes should specify, where possible, the amounts of credits extended by export financing institutions, and amounts of export credits guaranteed by the government of the compiling country.

Item 4.8: Other

391. This item includes changes, if any, in the equity held by residents in noncommercial real estate abroad (assets) and in the equity held by nonresidents in noncommercial real estate in the compiling country (liabilities). For reconciliation with the UN and OEEC systems of national accounts, investment by governments in embassy buildings and similar nonmilitary installations are included in this item. foreign

Item 5: Net credit or debit balance (1 through 4)

392. Net totals should be given separately for assets and liabilities.

GENERAL NOTE TO TABLE XII

393. This table shows the entries for changes in the short-term assets and liabilities of the private sector other than direct investment capital (which is recorded in Table XI). The table provides for the derivation of the entries from amounts outstanding at the beginning and the end of the reporting period. However, if a record of outstanding amounts is not available, some entries may be estimated from other sources, e.g., from a comparison of export shipments and foreign exchange receipts for exports, adjusted to the same coverage and valuation basis. Statistics covering the transfer of funds for short-term investment are not usually sufficient to enable the aggregate net change in short-term assets and liabilities to be derived. First, some transfers of funds, e.g., transfers made abroad, may not be recorded in the statistics, and second, changes in short-term assets and liabilities may arise from transactions other than transfers of funds, e.g., from merchandise movements.

Column (4): Adjustments

394. The net change in foreign short-term assets and liabilities shown in column (3) does not necessarily provide a measure of net capital movements at transactions value. Reference should be made to the General Note to Tables XV and XVI (paragraphs 424-28) for a full discussion of the adjustments required to express the change at transactions value, and to the General Note to Tables XI-XVI (paragraphs 356-65) for a discussion of the problems of valuation and coverage.

Column (5): Corrected change

395. This column covers the corrected changes in foreign assets and liabilities for transfer to Table A (Part 2). Increases in assets (no sign in Table XII) should be transferred to the debit column of Table A, and decreases in assets (minus sign in Table XII) to the credit column. Increases in liabilities (no sign in Table XII) should be transferred to the credit column of Table A, and decreases in liabilities (minus sign in Table XII) to the debit column.

TABLE XII. PRIVATE SHORT–TERM FOREIGN ASSETS AND LIABILITIES

(Other Than Direct Investment)

Compiling Country ....

Period Covered ....

Currency.. Unit ....

Exchange Rate: US$ .... Per ....

Item	This Return (1)	Last Return (2)	Increase or Decrease (–) (1–2) (3)	Adjustments (4)	Corrected Change (3+4) (5)	Transfer to Table A (Part 2) (6)
Assets						
1. Currency and bank deposits						12.1
2. Foreign central government securities						12.2
3. Trade credits						12.3
4. Other						12.4
5. Total (1 through 4)						12
Liabilities						
6. Trade credits						12.3
7. Other						12.4
8. Total (6 plus 7)						12

NOTES TO ITEMS IN TABLE XII

Item 1: Currency and bank deposits

396. This item covers changes in holdings of foreign notes and coin in current circulation, and in bank deposits. Gold coin should be excluded (see "Underlying Principles," paragraph 33). See also paragraph 398.

Item 2: Foreign central government securities

397. Domestic holdings of foreign treasury bills and other central government short-term securities should be entered here. Holdings of foreign private and local government short-term obligations guaranteed by foreign central governments should be entered in item 4.

Item 3: Trade credits—assets

398. This item covers short-term claims on foreigners for merchandise transferred to foreign ownership but not yet paid for (export credits), and prepayments for imports of which ownership has not yet been transferred to residents, except trade credits extended and received by direct investment enterprises which are included in Table XI, item 1. It includes open book accounts and trade bills, except those negotiated by banks. If part of the export credits covered by this item is guaranteed by the compiling country's government, the amount of such credits extended and repaid during the reporting period should be indicated in the explanatory notes. Deposits in a foreign monetary institution made directly by resident importers under documentary import credits should be entered in item 1. Such deposits made in a domestic monetary institution should not be included in Table XII, but any deposits which the domestic monetary institution holds abroad as cover should be entered in Table XV or XVI. Claims on foreigners arising from acceptances by domestic monetary institutions on behalf of foreign importers should be entered in Table XV or XVI, not Table XII.

Item 6: Trade credits—liabilities

399. This item covers liabilities to foreigners for imports for which payment has not yet been made, including trade bills issued by the private sector and open book accounts. It also covers payments received by residents for exports that have not yet been transferred to foreign ownership.

GENERAL NOTE TO TABLE XIII

400. This table shows transactions in the foreign assets and liabilities of the compiling country's local governments. The local government sector is defined in the General Notes to Tables XI-XVI (paragraph 341).

Columns (1) and (2): Assets

401. Transactions in foreign assets during the reporting period should be entered in the credit column (column 1) if they represent a decrease, and in the debit column (column 2) if they represent an increase. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

Columns (3) and (4): Liabilities

402. Transactions in foreign liabilities during the reporting period should be entered in the credit column (column 3) if they represent an increase, and in the debit column (column 4) if they represent a decrease. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

TABLE XIII. LOCAL GOVERNMENT FOREIGN ASSETS AND LIABILITIES

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Assets (Net)		Liabilities (Net)		Transfer to Table A (Part 2) (5)
	Credit (decrease) (1)	Debit (increase) (2)	Credit (increase) (3)	Debit (decrease) (4)	
1. New issues abroad	xxx	xxx		xxx	13.1
2. Retirements abroad	xxx	xxx	xxx		13.1
3. Other securities					13.2
4. Loans (4.1 through 4.2)					13.3
4.1. Drawings on loans	xxx			xxx	
4.2. Repayments on loans		xxx	xxx		
5. Other assets and liabilities					13.3
6. Net credit or debit balance (1 through 5)					13

NOTES TO ITEMS IN TABLE XIII

Items 1 and 2: New issues abroad and retirements abroad

403. Information on types of lender and on the amounts for significant new issues (item 1) and retirements (item 2) in foreign markets by local governments should be given in explanatory notes.

Item 3: Other securities

404. For assets, this item covers any changes in the holdings of foreign securities by local governments, including those arising from transactions with other domestic sectors, if any. For liabilities, the item covers participation by foreigners in new domestic issues of local government securities, retirements of such securities held by foreigners, and all other transactions between residents and foreigners in existing local government securities.

Item 4: Loans

405. Loans received by local governments under guarantee of the central government of the compiling country should be specified in explanatory notes.

Item 6: Net credit or debit balance (1 through 5)

406. Net totals should be entered separately for assets and liabilities.

GENERAL NOTE TO TABLE XIV

407. This table shows transactions in the foreign assets and liabilities of the compiling country's central government. The central government sector is defined in the General Note to Tables XI-XVI (paragraph 341). Central government transactions with the IMF should be entered in Table XV rather than in Table XIV (see General Note to Tables XI-XVI, paragraph 347).

Columns (1) and (2): Assets

408. Transactions in foreign assets during the reporting period should be entered in the credit column (column 1) if they represent a decrease, and in the debit column (column 2) if they represent an increase. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

Columns (3) and (4): Liabilities

409. Transactions in foreign liabilities during the reporting period should be entered in the credit column (column 3) if they represent an increase, and in the debit column (column 4) if they represent a decrease. In general, the entries should comprise net credit or net debit balances, but certain transactions should be entered on a gross basis (see paragraph 355).

TABLE XIV. CENTRAL GOVERNMENT FOREIGN ASSETS AND LIABILITIES

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Assets (Net)		Liabilities (Net)		Transfer to Table A (Part 2) (5)
	Credit (decrease) (1)	Debit (increase) (2)	Credit (increase) (3)	Debit (decrease) (4)	
1. Long-term securities of central government (1.1 through 1.4)	xxx	xxx			
1.1. New issues abroad	xxx	xxx		xxx	14.1
1.2. Retirements abroad	xxx	xxx	xxx		14.1
1.3. Other transactions in issues abroad	xxx	xxx	xxx		14.1
1.4. Domestic issues	xxx	xxx			14.2
2. Foreign long-term securities (2.1 through 2.3)			xxx	xxx	14.2
2.1. International lending institutions			xxx	xxx	
2.2. Foreign central governments			xxx	xxx	
2.3. Other			xxx	xxx	
3. Short-term securities of central government (3.1 plus 3.2)	xxx	xxx			14.3
3.1. Foreign issues	xxx	xxx			
3.2. Domestic issues	xxx	xxx			
4. Foreign short-term securities			xxx	xxx	14.3
5. Drawings on long-term loans	xxx			xxx	14.4
6. Repayments on long-term loans (6.1 plus 6.2)		xxx	xxx		14.4
6.1. Contractual		xxx	xxx		
6.2. Noncontractual		xxx	xxx		
7. Other long-term (specify)					14.5
7.1.					
7.2.					
7.3.					
8. Other short-term (specify)					14.6
8.1.					
8.2.					
8.3.					
9. Net credit or debit balance (1 through 8)					14

NOTES TO ITEMS IN TABLE XIV

Item 1: Long-term securities of central government

410. This item covers new issues and retirements of long-term securities issued by the central government of the compiling country in foreign markets, participation by foreigners in such issues in the domestic market, retirements of such issues held by foreigners, and all other transactions between residents and foreigners in such securities. For a discussion of long-term and short-term capital, see "Basic Methodology" (paragraph 84) and General Note to Tables XI-XVI (paragraphs 350-52).

Items 1.1 and 1.2: New issues abroad and retirements abroad

411. Details of place of issue and amounts of new issues (item 1.1) and retirements (item 1.2) of central government securities in foreign markets should be given in explanatory notes.

Item 1.4: Domestic issues

412. This item covers participation by foreigners in new long-term issues of the central government in the domestic market, retirements of domestic issues held by foreigners, and all other transactions by foreigners in existing long-term securities of the central government. Countries whose central government liabilities are held by foreign institutions as foreign exchange reserves should indicate in explanatory notes changes in foreign holdings of such liabilities by type of foreign holder, distinguished international institutions, foreign central governments, foreign central and other monetary institutions, and other significant types of holder, e.g., marketing boards.

Item 2: Foreign long-term securities

413. This item covers changes in the central government's holdings of foreign long-term securities, including those arising from transactions with other domestic sectors, if any.

Item 3: Short-term securities of central government

414. This item covers, on the one hand, new issues and retirements of the central government's short-term securities in foreign markets, and transactions of other residents in such issues abroad (item 3.1), and, on the other hand, foreign participation in new short-term issues of the central government in the domestic market, retirements of domestic issues held by foreigners, and all other transactions between foreigners and residents in existing short-term securities of the central government (item 3.2).

415. Countries, whose treasury bills and other short-term central government liabilities are held by foreign institutions as foreign exchange reserves, should indicate in explanatory notes changes in foreign holdings of such liabilities by type of foreign holder (see note to item 1.4, paragraph 412).

Item 4: Foreign short-term securities

416. This item covers all changes in the central government's holdings of foreign short-term securities, including those resulting from transactions with other domestic sectors, if any.

Items 5 and 6: Drawings and repayments on long-term loans

417. Details of amounts, borrowers, and lenders should be given for long-term loans in explanatory notes. Contractual repayments of central government long-term loans should be entered in item 6.1 and all other repayments of such loans in item 6.2. Drawings and repayments on short-terms loans should not be entered here but in item 8. Loans extended or received by residents other than the central govenment, but with that government's guarantee, should be entered in the table appropriate to the sector of the domestic lender or borrower, rather than in Table XIV.

Items 7 and 8: Other long-term and other short-term

418. These items may cover a variety of transactions, and significant components should be specified in explanatory notes. Possible entries are subscriptions to nonmonetary international organizations, such as the IBRD, changes in the central government's surplus funds and counterpart fund deposits held abroad, trade credits extended or received by the central government, and any investment by the central government in nonresident enterprises. For reconciliation with the UN and OEEC systems of national accounts, the entries should also include sales (credit), depreciation (credit), and purchases (debit) of embassy buildings and similar nonmilitary installations maintained abroad by the central government.

Item 9: Net credit or debit balance (1 through 8)

419. Net totals should be given separately for assets and liabilities.

GENERAL NOTE TO TABLES XV AND XVI

420. These tables show the entries for changes in gold holdings and foreign assets and liabilities of the compiling country's monetary institutions. However, a few long-term capital transactions in which a domestic monetary institution is the creditor or debtor are recorded in Table XI rather than in Table XV or XVI (see General Note to Tables XI-XVI, paragraph 347). Monetary institutions are defined in the General Note to Tables XI-XVI (paragraphs 342-43).

421. The entries for outstanding amounts in the last return and in this return, i.e., at the beginning and the end of the reporting period, should be based on the records of the institutions concerned or on statistical series compiled from these records when such series are available. In either case the sources used should be indicated. If the foreign assets and liabilities of the compiling country are reported in a currency unit other than that in which balance sheets or other records are published, the rates applied in converting the original data should be indicated for reconciliation purposes.

422. The data for the beginning and the end of a reporting period should be comparable. They should be adjusted to eliminate any differences from the beginning to the end of the period in the institutions and the assets and liabilities covered, and in the methods of distributing the assets and liabilities among the items specified in the tables, as explained in section (8) of the General Note to Tables XI-XVI (paragraph 363). Any discrepancies arising from the use of different sources or methods in compiling the data should be specified. Furthermore, if the outstanding amounts reported for the beginning of the period are not identical with those given in the last report for the end of the previous period, an explanation of how the differences may be reconciled should be appended. Differences from published series should also be explained.

Columns (3) and (4): Other institutions

423. The names of the other central institutions included in these columns in Table XV and the types of other monetary institutions included in the same columns in Table XVI should be listed on a supplementary page.

Column (8): Adjustments

424. For the reasons stated below, the net changes in foreign assets and liabilities shown in column (7) do not necessarily provide a measure of net capital movements at transactions value; adjustments may be required to express the changes at transactions value and these adjustments should be entered here.

Value of reporting unit changed

425. When a country that reports its foreign assets and liabilities in terms of domestic currency appreciates or depreciates its currency against other currencies during the reporting period, separate tables should be prepared for the period before and for the period after the exchange rate adjustment. In the table for the period before the adjustment, gold holdings and foreign assets and liabilities should be converted at the old rate, and in the table for the period after the adjustment, they should be converted at the new rate. Separate tables before and after the change in the exchange rate should also be compiled if the compiling country reports its foreign assets and liabilities in the currency of a foreign country and the latter appreciates or depreciates its currency during the period. In both these cases, the value of the reporting unit has changed, and two separate statements are needed to convert the reported data into a stable unit of measurement. If this procedure is followed, no adjustments have to be made in column (8). However, if it is not possible for statistical reasons to prepare separate tables for the periods before and after the exchange rate adjustment, entries will be needed in column (8), calculated as described in the next paragraph.

Value of other currencies changed

426. If the value of the reporting unit has not changed, but the compiling country holds foreign assets and liabilities denominated in the currency of a country which has appreciated or depreciated its currency during the reporting period in relation to the reporting unit, valuation adjustments have to be made in column (8). The adjustments are needed whether the reporting unit is the domestic currency, a foreign currency, or any other unit of account. If the reporting unit is not the domestic currency, valuation adjustments to assets and liabilities denominated in domestic currency are needed if that currency is appreciated or depreciated. In each instance the correction should be applied to the foreign assets and liabilities existing at the time of the change in exchange rates; the entry in column (8) should be equal to their value at the old exchange rate minus their value at the new rate.

Other valuation adjustments

427. For holdings of securities and other credit instruments with a fluctuating market value, changes derived from balance sheet entries for the beginning and the end of a period do not always reflect net changes at transactions value during a period because of accounting adjustments. Valuation adjustments for changes in holdings of securities may therefore be required. A special valuation adjustment is also required for the writing off of bad debts.

428. For securities, it may frequently be convenient to calculate the entry in column (9) directly from recorded transactions during the period, and to estimate the valuation adjustment in column (8) as a residual, i.e., as column (9) less column (7). If the valuation adjustment is to be estimated directly, it can usually be derived from the entries in the accounts for foreign securities for realized or unrealized capital gains or losses transferred to a profit and loss account, to an equalization account, or to some reserve or net worth account. Credit entries (for losses) in the accounts for foreign securities should be entered in column (8) without a sign, and debit entries (for gains) should be entered with a minus sign. However, no valuation adjustment should be made if the entries in the security accounts reflect increases in value owing to accrued interest. (Compare the treatment of undistributed dividends above, paragraph 385.)

Column (9): Corrected change

429. This column contains the entries to be transferred to Table A (Part 2). Increases in assets (no sign in Table XV or XVI) should be transferred to the debit column in Table A, and decreases in assets (minus sign in Table XV or XVI) should be transferred to the credit column. Increases in liabilities (no sign in Table XV or XVI) should be transferred to the credit column, and decreases in liabilities (minus sign in Table XV or XVI) to the debit column.

TABLE XV. GOLD HOLDINGS AND FOREIGN ASSETS AND LIABILITIES OF CENTRAL MONETARY INSTITUTIONS

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Central Bank		Other Central Institutions		Total				Corrected Change (7+8) (9)	Transfer to Item in Table A (10)
	This return (1)	Last return (2)	This return (3)	Last return (4)	This return (1+3) (5)	Last return (2+4) (6)	Increase or decrease (–) (5–6) (7)	Adjust-ments (8)		
Monetary Gold										
1. Pledged										
2. Other										
3. Total (1 plus 2)										15.6
(Quantity: thousand fine ounces)	( )	( )	( )	( )	( )	( )	( )	( )	( )	
Foreign Assets										
4. IMF subscription										15.1
5. Marketable assets (5.1 through 5.4)										15.2
5.1. International lending institutions										
5.2. Foreign central governments										
5.3. Bank acceptances										
5.4. Other										
6. Deposits										15.3
7. Affiliated institutions (net)										15.5
8. Loans										15.4
9. Other										15.5
10. Total (4 through 9 = 10.1 through 10.3)										15
10.1. Freely usable assets										
10.2. Bilateral balances										
10.3. Other										
Foreign Liabilities										
11. To IMF										15.1
12. Deposits (12.1 through 12.4)										15.3
12.1. Foreign central monetary institutions										
12.2. Other foreign monetary institutions										
12.3. Foreign central governments										
12.4. Other foreign										
13. Affiliated institutions (net)										15.5
14. Loans										15.4
15. Other										15.5
16. Total (11 through 15 = 16.1 through 16.3)										15
16.1. Freely usable liabilities										
16.2. Bilateral balances										
16.3. Other										

TABLE XVI. GOLD HOLDINGS AND FOREIGN ASSETS AND LIABILITIES OF OTHER MONETARY INSTITUTIONS

Compiling Country .... Period Covered ....

Currency.................................... Unit .... Exchange Rate: US$............................Per ....

Item	Deposit Banks		Other Monetary Institutions		Total				Corrected Change (7+8) (9)	Transfer to Item in Table A (10)
	This return (1)	Last return (2)	This return (3)	Last return (4)	This return (1+3) (5)	Last return (2+4) (6)	Increase or decrease (–) (5–6) (7)	Adjustments (8)		
Monetary Gold										
1. Pledged										
2. Other										
3. Total (1 plus 2)....................										16.5
(Quantity: thousand fine ounces)	( )	( )	( )	( )	( )	( )	( )	( )	( )	
Foreign Assets										
4. (Not applicable)....................	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
5. Marketable assets (5.1 through 5.4)										16.1
5.1. International lending institutions										
5.2. Foreign central governments										
5.3. Bank acceptances										
5.4. Other										
6. Deposits										16.2
7. Affiliated institutions (net)										16.4
8. Loans										16.3
9. Other										16.4
10. Total (5 through 9 =10.1 through 10.3)....................										16
10.1. Freely usable assets										
10.2. Bilateral balances										
10.3. Other										
Foreign Liabilities										
11. (Not applicable)....................	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
12. Deposits (12.1 through 12.4)....................										16.2
12.1. Foreign central monetary institutions ...										
12.2. Other foreign monetary institutions										
12.3. Foreign central governments										
12.4. Other foreign										
13. Affiliated institutions (net)....................										16.4
14. Loans										16.3
15. Other										16.4
16. Total (12 through 15 = 16.1 through 16.3)										16
16.1. Freely usable liabilities										
16.2. Bilateral balances										
16.3. Other										

NOTES TO ITEMS IN TABLES XV AND XVI

MONETARY GOLD

Items 1-3: Monetary gold

430. A definition of monetary gold is given in the General Note to Tables II(a) and II(b), paragraph 164. The entries for outstanding amounts should cover the value of the monetary gold holdings measured in the reporting unit at the official par value or effective rate if one has been established for the reporting unit. If no such par value or rate has been established, the entries should cover the value of the gold holdings expressed in a convertible currency with a fixed relationship to gold, converted into the reporting unit at the average of the effective buying and selling rates for that convertible currency. The difference between the change in gold holdings at the transactions value and at the par value shown in column (9) constitutes item 9 of Table II(a) and is implicitly included in Table II(b). Deposits payable in gold, as distinct from earmarked gold, should be entered in item 6 of Table XV or XVI, rather than in items 1-3, since such deposits do not constitute direct ownership of gold. Data on gold deposits should be given in explanatory notes.

Item 1: Pledged gold

431. This item covers monetary gold pledged as collateral against foreign debt.

FOREIGN ASSETS

Item 4: IMF subscription

432. This item (Table XV only) covers the subscription payments in gold and domestic currency to the IMF. If the subscription enters the records of the central bank, it is entered in columns (1) and (2). If it does not enter the records of the central bank, it is entered in columns (3) and (4). Subscriptions by governments to nonmonetary international organizations, such as the IBRD, should be entered in Table XIV.

Item 5.2: Marketable assets—foreign central governments

433. Treasury bills and other foreign government securities should be entered in this item.

Item 5.4: Marketable assets—other

434. This item excludes marketable assets issued by any foreign affiliates of monetary institutions (see note to item 7, below).

Item 6: Deposits

435. If possible, an explanatory note should distinguish holdings of time deposits from those of other deposits.

Item 7: Affiliated institutions (net)

436. This item covers short-term claims of the compiling country's monetary institutions on their foreign branches and subsidiaries, and of domestic branches and subsidiaries of foreign monetary institutions on head offices or affiliates abroad. The amount should be entered on a net basis, assets exceeding liabilities being entered here, and net liabilities in item 13. However, offices abroad of central monetary institutions, e.g., a domestic central bank's office in a foreign financial center, are ordinarily regarded as integral parts of the domestic institution. Item 7 is therefore applicable only in exceptional cases to the institutions included in Table XV.

437. Any changes in net long-term claims of domestic monetary institutions on their foreign branches and subsidiaries that can be distinguished are recorded in Table XI as direct investment (see also paragraph 446).

438. Countries where the major part of the monetary institutions' foreign assets consists of accounts with affiliated institutions may sometimes find it desirable to combine movements in this item with movements in deposits (item 6).

Item 8: Loans

439. Details of lenders, amounts, and terms of significant foreign loans extended by monetary institutions, especially the central monetary institutions, should be given in explanatory notes.

Item 9: Other

440. This item covers current foreign coin (other than gold), currency, and other foreign assets not mentioned above.

Item 10: Total

441. This item is the sum of items 4 through 9 (Table XV) or of items 5 through 9 (Table XVI). The subitems classify the total by degree of liquidity.

Item 10.1: Freely usable assets

442. This item covers those assets of monetary institutions which qualify as foreign exchange reserves in the compiling country. There should be entered here all claims which in fact are freely transferable and can be used for multilateral payments, whether or not they are formally convertible.

Item 10.2: Bilateral balances

443. This item covers balances in the form of bank deposits, loans, and securities arising out of bilateral payments agreements which cannot be used for payments to third countries.

Item 10.3: Other

444. This item covers foreign assets other than those which are freely usable and those arising out of bilateral agreements. They should be classified by degree of liquidity; significant categories should be specified separately.

FOREIGN LIABILITIES

Item 11: To IMF

445. This item (Table XV only) covers the domestic currency liabilities of monetary institutions to the IMF, including those in the form of noninterest-bearing notes or similar obligations. The liabilities of the compiling country's central bank are entered in columns (1) and (2), and those of its central government in columns (3) and (4). Liabilities of governments to other international organizations, such as the IBRD, should be entered in Table XIV.

Item 13: Affiliated institutions (net)

446. This item covers the net short-term liabilities of branches and subsidiaries of foreign monetary institutions in the compiling country to their foreign home offices and to other affiliates abroad; and of domestic monetary institutions to their foreign branches and subsidiaries (see also note to item 7, paragraph 436). Insofar as they can be distinguished, any net long-term foreign liabilities of those domestic monetary institutions that are branches or subsidiaries of foreign enterprises are recorded in Table XI as direct investment. (See also paragraph 437.)

447. Countries where the major part of the foreign liabilities of monetary institutions consists of accounts for affiliates may sometimes find it desirable to combine movements in this item with movements in deposits (item 12).

Item 14: Loans

448. Details of lenders, amounts, and other characteristics of foreign loans received by monetary institutions, especially the central monetary institutions, should be given in explanatory notes.

Item 15: Other

449. Market transactions between residents and foreigners in securities issued by domestic monetary institutions cannot ordinarily be derived from the balance sheets of these institutions, but can more conveniently be recorded in combination with transactions in securities issued by

other domestic corporations. In addition, the economic factors underlying market transactions in securities of monetary institutions are probably similar to those for transactions in other corporate securities. Therefore, market transactions in securities issued by domestic monetary institutions are recorded in Table XI rather than here. (See also General Note to Tables XI - XVI, section (2), paragraph 347.)

Item 16: Total

450. This item is the sum of items 11 through 15 (Table XV) and of items 12 through 15 (Table XVI). The subitems classify the total by degree of liquidity, and the classification used in the notes to subitems 10.1 through 10.3 should be applied, *mutatis mutandis*.

GENERAL NOTE TO TABLE B

451. Table B has been constructed to provide a framework for classifying the compiling country's balance of payments by countries and areas. Since the significance of a regional classification may change considerably with the passing of time, a standard list of the countries and areas to be distinguished is not given in this Manual. Rather, such standard lists will be provided in the Fund's requests for balance of payments data that are from time to time issued on the basis of the Manual.

452. For convenience of reference, Table B, insofar as it subdivides items, identifies the same subitems as Table A. Since Table B does not have separate columns for credits and debits, it subdivides certain items (13.1, 14.1, 14.4, 15.4, and 16.3) for which gross entries are provided in Table A, to permit separate recording of their credit and debit components.

(1) Principles for regional classification

453. The principles adopted for the regional classification of the balance of payments depend on the purposes for which it is prepared. In the period immediately following World War II, the major purpose of the regional classification was to give an accurate account of the financial settlements between the compiling country and individual foreign countries and groups of countries. At that time, international payments were to a large extent made in inconvertible currencies, e.g., under bilateral agreements providing for settlement in gold or convertible currency of debit or credit balances in excess of a certain limit. Bilateral balance of payments statements were therefore needed to analyze the origin of the balances requiring settlement, and to give an account of the sources and uses of the various currencies, including the use of currencies for multilateral settlements. The original scheme for regional classification, which was introduced in the second edition of the Balance of Payments Manual, was intended to serve these needs. It provided for the classification of all transactions other than changes in short-term assets and liabilities by the country of the immediate foreign party to the transaction. In order to include an account of the sources and uses of the various currencies, changes in short-term assets and liabilities were classified on the basis of the residence of the foreign creditor or debtor, and each bilateral statement was balanced by means of entries for multilateral settlements, which were defined as transfers between two countries of short-term claims on a third.

454. For transactions in goods and services, this system leads to classification by country of purchase or sale. It also results in the inclusion on a gross basis in the balance of payments, of a number of transactions that are of comparatively little significance in analyzing a country's international transactions, except under conditions of limited convertibility, such as merchandise transactions abroad. The inclusion of transactions of this kind and of related transactions in other goods and services, e.g., transportation and insurance, tends to inflate the over-all balance of payments with transactions that are not closely related to production and income in the domestic economy. Moreover, their inclusion, together with the classification of transactions by country of purchase and sale, impedes the analysis of the fundamental relationships of a country's international transactions to developments in specific foreign economies.

455. In this third edition of the Manual, therefore, the emphasis in the regional classification of transactions in goods and services has been changed so as to stress the direction of the flows of real resources ("real flows"), rather than financial settlements on account of such flows ("financial flows"). As explained in "Basic Methodology" (paragraph 88), the balance of payments proper includes on a gross basis those transactions that are regarded as gross flows of real resources into and out of the domestic economy. It includes only the value added in the domestic economy by merchandise transactions abroad and other similar transactions in goods and services that do not play an important role in relation to economic activity in the compiling country, e.g., where the net balance is small in relation to the gross turnover. To achieve symmetry of reporting between countries, the general principle adopted in Table B is to regard exports of goods and services as being transactions with the first country in whose balance of payments they are to be entered as an inflow of real resources, in accordance with the rules of this Manual. Similarly, imports of goods and services are regarded as transactions with the last country in whose balance of payments they are to be entered as an outflow of real resources, in accordance with these rules. Accordingly, it may be necessary to by-pass as an intermediary the party with which a transaction is directly conducted and to attribute the transaction to the party that is regarded as the provider or the recipient of the real resources involved. This principle of regional allocation is referred to for convenience as the real flows principle (see paragraph 45).

456. Bilateral balance of payments statements prepared on this basis do not balance for two reasons. First, the direction of the real flows may not coincide with that of the financial settlements, and adjustments are therefore necessary to convert the record from a real flows to a financial flows basis. Similar adjustments are required for the gross financial flows involved in the transactions for which only a net balance is entered in the global balance of payments. Adjustments of both types are provided for in item 20 of Table B, and are discussed in section (3), below (paragraphs 471-88).

457. Second, even when the record of international transactions has been adjusted to a financial flows basis, the balance of payments statements with individual countries and areas will not balance if multilateral settlements have taken place. The lack of bilateral balance is due to the fact that in the balance of payments certain movements of capital are allocated by country and area on

the basis of the residence of the foreign creditor or debtor rather than that of the foreign party to the transaction. To bring each bilateral balance of payments statement into balance, multilateral settlements are entered in item 21 of Table B. For a discussion of the concept of multilateral settlements, see paragraphs 489-95. The abandonment of the distinction between long-term and short-term items as a general classification in the capital account of the balance of payments has necessitated certain technical changes in the definition of multilateral settlements from that given in the original scheme for regional classification (see paragraph 453). Nevertheless, the coverage of multilateral settlements has been left largely unchanged.

458. The principles of the regional classification are discussed above mainly with reference to transactions in goods and services, because it is those transactions that give rise to the major problems of regional allocation. Transfer payments and movements of capital (other than those classified regionally by the residence of the creditor or debtor) can usually be attributed unambiguously to a single foreign transactor. Only in exceptional cases is it desirable to by-pass as an intermediary the foreign party with which such transactions are directly conducted, and to attribute them to an original provider or ultimate recipient of the transfer payment or the financial capital. However, in such cases, as for transactions in goods and services, the classification should be by the country and area of the original or ultimate transactor rather than by that of the immediate party with whom the transaction is settled (see also section 5(a) of "Basic Methodology," paragraph 88), and adjustments similar to those for converting goods and services from a real flows basis to a financial flows basis will be required. Such adjustments are included in item 20.

459. The emphasis is thus on recording transactions in such a manner that the regional allocation lends itself to an analysis of the fundamental economic factors determining the direction of international transactions. While for conceptual completeness Table B provides for the adjustments and entries for multilateral settlements that must be made to bring each bilateral statement into balance, it is realized that the necessary data will not in general be available. For this reason, these adjustments and the entries for multilateral settlements have been entered, at the end of the table, next to net errors and omissions, with which it will often be necessary to combine them.

(2) Allocation of various types of transaction

460. The allocations of various types of transaction that follow from the principles discussed above are broadly described in the following subsections, and the detailed application of these principles is given in the Notes to Items in Table B.

(a) Allocation of exports and imports

461. In general, exports are allocated to the first country which both imports the goods physically across its customs frontier and acquires ownership of them, and imports are allocated to the last country which both exported them physically across its customs frontier and owned the goods at some time. This principle, which may be called the consignment-ownership principle,

means that exports will be allocated to the first country which will record them as imports under the rules of this Manual, and imports will be allocated to the last country which recorded them as exports under these rules. The consignment-ownership criterion does not apply, however, where the compiling country's exports do not cross the customs frontier of any foreign country acquiring ownership of them, e.g., exports to a foreign country's military forces stationed outside their own country, or where the compiling country's imports have not crossed the customs frontier of any foreign country that has owned them, e.g., imports of fish caught by foreign vessels on the high seas and shipped directly to the importing country. In such cases, exports are allocated to the first country, other than an intermediary (see paragraphs 472-77), acquiring ownership of the goods and imports to the last country, other than an intermediary, that had at some stage ownership of the goods.

462. The principles for allocation by country that are applied in trade returns data vary considerably from country to country but they may be reduced to three basic types: (i) classification by country of consumption for exports and production for imports; (ii) classification by country of consignment, i.e., by direction of shipment, for both exports and imports; and (iii) classification by country of sale for exports and purchase for imports. In the trade returns of any particular country, exports may be classified according to one of the principles, and imports according to another.

463. The classification by country of purchase or sale is employed by only a few countries, usually as a classification additional to that by country of consumption or production. It is based on a principle of financial flows rather than real flows and provides data for converting a record of merchandise transactions from a real flows basis to a financial flows basis.

464. The other two classification principles used in external trade statistics are, like the consignment-ownership principle adopted here, based on real flows. Country of production is usually understood to be the last country in which a good was physically transformed; minor processing such as sorting, blending, and packaging are not usually counted as physical transformation. The country of consumption is usually considered to be the country in which a good is consumed, invested in fixed capital, or physically transformed in a production process. Country of consignment sometimes means the first country and sometimes the last country to which exports are consigned or from which imports are consigned. The last country of consignment for exports will tend to coincide with the country of consumption, and the first country of consignment for imports, with the country of production. Sometimes other terms, such as country of destination for exports and country of provenance or origin for imports, are used to describe the country allocation in external trade statistics. Country of destination usually means country of last known consignment, which tends to coincide with country of consumption. Country of provenance usually means country of first known consignment, and country of origin is usually understood as a synonym for country of production, which in turn tends to coincide with first consignment. However, the application of all these terms is not uniform from country to country.

465. When goods are shipped directly from the country of production to the country of consumption, the consignment-ownership classification adopted here will usually be the same as that indicated in the external trade statistics, whether the classification is by consignment, production-consumption, or similar criteria (provenance, origin, destination, etc.). When a third country intervenes between the country of production and the country of consumption by importing and re-exporting the goods, the classification by consignment-ownership is most likely to coincide with classification by first consignment for exports and last consignment for imports. The UN Statistical Office, in a draft recommendation, has recently proposed a classification by country of consignment, which is intended to ensure maximum possible symmetry in the classification of general trade by partner countries. The consignment-ownership classification, which is also based on a principle of symmetry, comes close to that proposed by the UN Statistical Office. The differences arise mainly from the adjustments needed for balance of payments purposes to the original export and import entries in trade returns, which record some physical movements of goods across customs frontiers not involving a change of ownership between residents and foreigners.

(b) Allocation of freight and merchandise insurance

466. As indicated in the General Note to Tables III.A and III.B (paragraph 199), freight and merchandise insurance services for transportation of goods beyond the point of uniform valuation should be entered in accordance with the convention that such services are rendered by carriers and insurance companies to importers rather than to exporters. Accordingly, for such services, the countries of residence of the operator of the carrier and of the insurance company are the countries of production, and the importing country is the country of consumption. In accordance with the rules of this Manual, the compiling country's receipts for transportation and insurance of its exports and of goods traded between foreign countries are allocated to the first country recording the goods as imports, and the compiling country's payments for transportation and insurance of its imports are allocated to the countries of residence of the carriers' operators and of the insurance companies.

(c) Classification of other transactions

467. Transactions in goods and services other than merchandise and the related transportation and insurance services should be allocated to the country acquiring or providing the goods and services. Usually that will be the country in which the immediate party to the foreign transaction is a resident, although occasionally the immediate party can best be regarded as an intermediary, e.g., for income on direct investment that is routed through a subsidiary in a country other than that in which the income is earned.

468. Transfer payments can ordinarily be allocated directly to the country to which they are made and from which they are received. Grants between countries that are made through international organizations should be attributed by both the granting and receiving countries to the international organization involved because the ultimate donor or recipient cannot usually be identified.

469. Changes in assets and liabilities of the types that are used for multilateral settlements should be classified by the country on which the claim is held or to which the liability is due. In practice, multilateral settlements are likely to take place only in monetary-type assets and liabilities. However, as a practical rule it is suggested that all foreign assets and liabilities of monetary institutions and all short-term assets and liabilities of the other sectors be so classified.

470. Capital movements other than those that are classified by the country of the creditor or debtor should be attributed to the country with which the transaction is conducted, which may not coincide with the country on which the claim is held or to which the liability is due. In exceptional cases it may be desirable to by-pass the immediate foreign party (see "Basic Methodology," paragraph 88) and to attribute such capital movements to the countries ultimately acquiring or providing the capital.

(3) Adjustment to financial flows basis

471. Transactions allocated regionally in accordance with these rules (other than those classified on the creditor-debtor principle) may not coincide with the regional financial flows arising from these transactions. The adjustments that may be necessary to convert the data classified in accordance with the principles suggested above to an entry consistent with financial flows are outlined in the following paragraphs.

(a) Intermediary transactions in goods and services

472. In addition to transactions in goods and services that are considered to represent gross flows of real resources into and out of the economy, the compiling country's residents may carry out international transactions in goods and services that are entered only on a net basis. Such transactions involve the purchase of goods or services in one foreign country and the sale or granting of them to another foreign country. If the goods involved in such transactions are not imported into the compiling country, its residents are considered to act as intermediaries or middlemen in transactions between the two foreign countries.

473. Transactions in merchandise, and in freight and merchandise insurance, are the transactions in goods and services most frequently carried out through intermediaries. For example, when a merchant in the compiling country purchases goods in one foreign country and sells them in a second foreign country, without ever importing them into the compiling country, the merchant is considered to be only an intermediary between the two foreign countries. His gross purchases and sales are not entered in the compiling country's over-all balance of payments but only the net balance, mainly profit, on such transactions.

474. Similarly, when an exporter in the compiling country ships goods abroad, paying the freight and insurance on them, and sells them to a foreign country at the c.i.f. value, he is regarded as only an intermediary so far as the freight and insurance are concerned. Accordingly, the transactions in freight and insurance are regarded as taking place between the importer on the one hand and the carrier and insurance company on the other. Even though the exporter himself may make the freight and insurance payments to foreigners, these payments and their subsequent reimbursement by the foreign importer are not entered in the over-all balance of payments of the exporter's country.

475. While such intermediary transactions are not entered in the compiling country's over-all balance of payments on a gross basis, they do involve financial flows, i.e., receipts by the compiling country from one foreign country and payments to another foreign country. For this reason, such transactions in goods and services are added to the compiling country's regional balance of payments in items 20.1-20.3 of Table B, Part 3. In addition, the compiling country's transactions in goods and services that are carried out through foreign intermediary countries are reallocated in items 20.4-20.6 to those countries to obtain a classification by country of purchase-sale. For example, the compiling country may import goods from country A through a merchant in country B. In item 1 the import is allocated to country A and in item 20.4 it is reallocated to country B.

476. The rules given below in the Notes to Items in Table B for allocating goods and services in items 1-8 are intended to give a symmetrical and consistent allocation of such transactions by all countries based on the principle of real flows. Similarly, the rules for adding gross transactions in which the compiling country acted as an intermediary, and for reallocating transactions settled through foreign intermediaries, are intended to give a symmetrical and consistent allocation of financial flows on account of goods and services.

477. For example, suppose Germany imports goods of 100 from the United States through a Netherlands merchant. Aside from the merchant's profit and the freight and insurance on the goods, which may be disregarded in this example, the entries in item 1, merchandise, and item 20, regional adjustments, in the bilateral balance of payments statements of the three countries are illustrated in Table (i), below.

Table (i)

Compiling Country:	United States		Germany		Netherlands	
Statement with:	Germany	Netherlands	United States	Netherlands	United States	Germany
	(No sign indicates credit; minus sign indicates debit)					
1. Merchandise as recorded in item 1						
Exports f.o.b.	100	—	—	—	—	—
Imports f.o.b.	—	—	-100	—	—	—
20. Adjustment to financial flows basis for:						
Merchants' transactions	—	—	—	—	-100	100
Trade to purchase-sale basis	-100	100	100	-100	—	—
Merchandise on financial flows basis (1 plus 20)	—	100	—	-100	-100	100

(b) *Processing transactions*

478. Special problems of reallocation may arise in the case where one country (country A) exports goods to a second country (country B) for processing and then sells them to a third country (country C). In some such cases (see General Note to Table I, paragraph 121), country B is assumed to acquire ownership of the goods from country A and subsequently transfer ownership to country C. It should be borne in mind that the following discussion applies only to those cases where such a transfer of ownership is imputed. In item 1, these imputed changes of ownership are interpreted as an export of the unprocessed goods from country A to country B and an export of the processed goods from country B to country C. In fact, however, the change of ownership is directly from country A to country C, and no financial settlements for the transaction take place between country B and country C, or, except for the processing fee, between countries A and B.

479. In country A's balance of payments the export of the unprocessed goods is allocated to country B in item 1. Its bilateral balances with both countries B and C may be adjusted to a financial flows basis by entering, in the same manner as a merchant's intermediary transaction, a purchase (debit) of the processed goods from country B and a sale (credit) of the same goods to country C. Similar adjustments will have to be made for freight and insurance payments on the goods if they are carried and insured from country A to country B by country C or a fourth country (country D). In this case, while the freight and insurance on the export from country A to country B are presumably paid by country A, they are not included in the global balance of payments of country A. They are, however, embodied in the value of the processed goods for which a debit adjustment is made in the column for country B, although no payment to country B is made for them. An adjustment similar to a c.i.f. export adjustment will, therefore, have to be made for these payments in country A's balance of payments as a debit under the country to which the payment is made and as a credit under country B. If country A pays the freight and insurance for the transport from country B to country C, similar adjustments will again have to be made (debit under the country of the payee, credit under country C).

480. In country B's balance of payments the adjustments are much simpler. Country B's export of the processed goods (credit), and the freight and insurance on the import of the unprocessed goods (debit) if paid by country A to carriers or insurance companies in third countries, have to be reallocated to country A. In country C's balance of payments; only the normal adjustments to a purchase-sales basis are required.

481. Suppose, for example, that a Finnish exporter ships goods valued at 100 f.o.b. Finland in a Finnish ship to the Netherlands for processing, pays the ship 10 for freight and the Netherlands 15 for processing, and sells the goods to France for 125. (Freight from the Netherlands to France may be ignored for the purposes of the example.) Assuming that a transfer of ownership to and from the Netherlands is imputed, the entries for these transactions in the bilateral balance of payments statements of the three countries are illustrated in Table (ii), below.

Table (ii)

Compiling Country:	Finland		Netherlands		France	
Statement with:	Netherlands	France	Finland	France	Finland	Netherlands
	(No sign indicates credit; minus sign indicates debit)					
1. Merchandise as recorded in item 1						
Exports f.o.b.	100	—	—	125	—	—
Imports f.o.b.	—	—	-100	—	—	-125
3. Freight as recorded in item 3	10	—	-10	—	—	—
20. Adjustment to financial flows basis for:						
Trade to purchase-sale basis	—	—	—	—	-125	125
Processing	-125	125	125	-125	—	—
Merchandise and freight on financial flows basis (1 plus 3 plus 20)	-15	125	15	—	-125	—

482. Similar reallocation problems arise when one country purchases goods in another country, ships them directly to a third country for processing, and then imports them, and a transfer of ownership to and from the third country is imputed. Suppose, in the above example, that France had purchased the goods for 100 in Finland, shipped them in a Finnish ship (paying freight of 10) to the Netherlands for processing (paying a processing fee of 15), and then imported them into France. Table (iii) illustrates the entries that would in this case be made in the balance of payments of the three countries.

Table (iii)

Compiling Country:	Finland		Netherlands		France	
Statement with:	Netherlands	France	Finland	France	Finland	Netherlands
	(No sign indicates credit; minus sign indicates debit)					
1. Merchandise as recorded in item 1						
Exports f.o.b.	100	—	—	125	—	—
Imports f.o.b.	—	—	-100	—	—	-125
3. Freight as recorded in item 3	10	—	-10	—	—	—
20. Adjustment to financial flows basis for:						
Trade to purchase-sale basis	-100	100	—	—	—	—
Freight to purchase-sale basis	-10	10	—	—	—	—
Processing	—	—	110	-110	-110	110
Merchandise and freight on financial flows basis (1 plus 3 plus 20)	—	110	—	15	-110	-15

(c) Intermediary and processing transactions

483. Processing and intermediary transactions may be combined. For example, a merchant in country A may purchase goods in country B, ship them to country C for processing, and sell them to country D. Assuming that it is the type of processing transaction for which a change of ownership would be imputed, the transaction would be shown in item 1 as an export from country B to country C and an export from country C to country D. The adjustments to a financial flows basis in the balance of payments statements of the four countries should be as follows. For country A, entries should be made in item 20.1: debit country B for the purchase of the unprocessed goods, debit country C for the processing fee, and credit country D for the sale of the processed goods. For country B, the export of the goods should be reallocated from country C to country A by means of the purchase-sale adjustment (item 20.4). For country C, the import of the unprocessed goods from country B and the export of the processed goods to country D should be reallocated to country A by means of the processing adjustment (item 20.7). For country D, the import of the goods should be reallocated from country C to country A by means of the purchase-sale adjustment (item 20.4).

(d) Transactions of direct investment companies

484. Even more complicated cases of reallocation may arise where a direct investment organization has productive activity in several countries and also purchases and sells goods in several countries (e.g., extraction, refining, and marketing of oil). In these cases the financial flows may not coincide at all with the entries made in accordance with the general principles of regional allocation outlined above. The head office will usually settle, or receive settlement for, the international transactions of its foreign branches and subsidiaries and remit to them only such funds as are needed for their local current and capital expenditures. Similarly, branches and subsidiaries which have surplus funds on account of their local current and capital operations will frequently remit such funds to the head office without reference to the need to settle their international transactions. In such cases, it is difficult to relate the net financial flows to and from each country directly to the gross international transactions of the direct investment company as allocated regionally in the balance of payments on a real flows basis.

485. As far as possible, the record of transactions of a direct investment company in goods and services should be adjusted to a financial flows basis by assuming that the country of the head office is an intermediary between the country exporting the goods and services and the country importing them. For the country in which a branch or subsidiary is located and the countries with which it has transactions, this means that the transactions should be reallocated to the country of the head office in a purchase-sale adjustment (item 20.4), unless they have been directly settled by the branch or subsidiary with the other countries. For the country in which the head office is located, corresponding adjustments should be made in item 20.1 (merchandise transactions abroad). Adjustments for processing that take place within a direct investment organization should also, as far as possible, be made in accordance with the formula developed in section (b), paragraphs 478-82. Where these methods cannot be applied for statistical reasons, it is suggested that the necessary adjustments be calculated by offsetting the transactions of the direct investment organization, as recorded in items 1 through 8, with opposite entries in the appropriate country or area columns, so as to substitute the net remittances by country or area.

486. Sometimes capital and investment income may be routed by direct investment companies through subsidiaries in countries other than those in which the investment is made. If such subsidiaries have only nominal functions, it may also be necessary to reallocate the entries for investment income and movement of direct investment capital to a financial flows basis in item 20. In this case, the net method outlined in the last sentence of the previous paragraph may be applicable.

(e) Other adjustments

487. All transfer payments, including those that might be considered as settled through international relief organizations, should be entered on a gross basis in items 9 and 10 of Table A. For example, if country A makes a grant of goods to an international organization, say the United Nations Children's Fund, which in turn grants them to country B, the grants should be entered on this gross basis, rather than as a grant by country A to country B. Since international transfer payments, other than those made through international organizations, are usually made directly between the paying and receiving countries, there is ordinarily no need for entries to record "intermediary" transfer payments or to reallocate transfer payments. Separate adjustment entries referring to transfer payments are not, therefore, provided in Table B.

488. The most important cases in which the regional allocation may not coincide with the direction of financial flows have been discussed above. However, adjustments other than those which have been described may be necessary to convert the entries in the balance of payments to a financial flows basis. While such adjustments cannot be described in detail, they should be calculated by offsetting the transactions as recorded with opposite entries in the appropriate country or area columns and substituting net remittances by country or area.

(4) Multilateral settlements

489. In items 1 through 20, net financial flows on account of goods and services, transfer payments, and capital movements other than those classified on the creditor-debtor principle, are allocated by the country of the transferor or transferee. Certain capital movements (ordinarily changes in foreign assets and liabilities of monetary institutions and foreign short-term assets and liabilities of other sectors), however, are allocated by the country of the foreign debtor or creditor. The two principles of allocation result in unbalanced bilateral statements whenever one country transfers to another country claims on a third country of the types so allocated. Such transfers are described as multilateral settlements. They cover primarily settlements in U.S. dollars between countries other than the United States, and settlements in pounds sterling between countries other than the United Kingdom. For example, many countries outside the United States finance transactions between themselves in dollars. Thus Germany may pay dollars to the Netherlands for the purchase of imports. These imports will be recorded in the bilateral statement between Germany and the Netherlands in accordance with the general principle set out above. On the other hand, the corresponding change in dollar balances will appear as a decrease in assets (credit) in Germany's balance of payments with the United States, as an increase in assets (debit) in the Netherlands' balance of payments with the United States, and as a shift in the geographic distribution of liabilities in the U.S. bilateral balance of payments. With entries only for the imports and the changes in short-term assets and liabilities, the bilateral statements of the United States, the Netherlands, and Germany with one another will not balance (see Table (iv), paragraph 493).

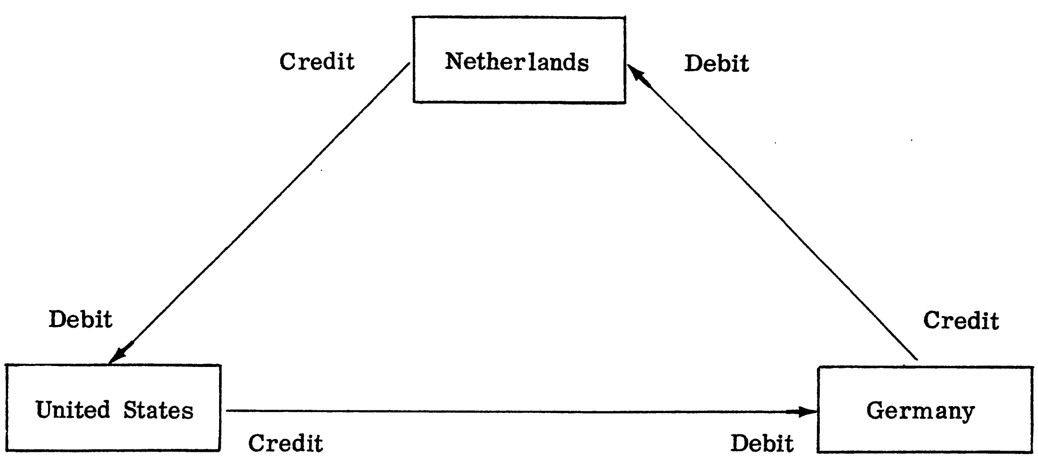
490. Separate entries are required for multilateral settlements to bring each bilateral statement into balance. These entries can readily be understood if the multilateral settlements are visualized as separate transactions in drafts, such as bankers' drafts or certified checks, on the country whose liabilities are transferred. In the example above, where dollars are transferred from Germany to the Netherlands, a likely procedure would be for the U. S. bank holding the dollar account of the German importer to debit the German account and to issue a banker's draft drawn on itself on behalf of Germany to the U.S. bank holding the dollar account of the Netherlands exporter. In the bilateral balances of payments of the three countries, the entries against multilateral settlements covering this banker's draft (as distinct from the entries in the capital account for the changes in German and Netherlands dollar balances) are as follows:

(a) For the United States, a credit in the column headed ''Germany'' representing the sale of the banker's draft to Germany, and a debit in the column headed ''Netherlands'' representing the purchase of the banker's draft from the Netherlands.

(b) For Germany, a debit in the column headed ''United States'' representing the acquisition of a dollar asset (the banker's draft), and a credit in the column headed ''Netherlands'' representing the transfer of that asset to the Netherlands exporter.

(c) For the Netherlands, a debit in the column headed ''Germany'' representing the receipt by the Netherlands exporter of a dollar asset from Germany, and a credit in the column headed ''United States'' representing the sale of the banker's draft to the United States by the Netherlands exporter.

491. The following diagram illustrates the triangular movement of the claim and the entries to be made in the balance of payments of each of the three countries. As in section 10(a) of ''Underlying Principles'' (paragraph 45), the head of an arrow indicates a debit and the tail of an arrow a credit.



492. It will be seen that the entries in every case are the same as those that are made for transfers of gold, i.e., a credit for the transferor and a debit for the transferee. For instance, the entries are the same as if settlement between Germany and the Netherlands had been made in gold purchased in the United States by the German importer and sold by the Netherlands exporter to the United States. The entries for multilateral settlements can most readily be understood when they are viewed not as corrections that have to be made because of divergent principles of geographic classification but as covering identifiable transactions, as described above.

493. Table (iv), below, illustrates the entries that are made in the bilateral balance of payments statements for the United States, Germany, and the Netherlands for the transactions described in the example given above. It will be seen that, with the entries for multilateral settlements, each bilateral statement balances.

Table (iv)

Compiling Country:	United States		Germany		Netherlands	
Statement with:	Germany	Netherlands	United States	Netherlands	United States	Germany
	(No sign indicates credit; minus sign indicates debit)					
Exports f. o. b.	—	—	—	—	—	100
Imports f. o. b.	—	—	—	-100	—	—
Assets	—	—	100	—	-100	—
Liabilities	-100	100	—	—	—	—
Multilateral settlements	100	-100	-100	100	100	-100

(5) Multilateral settlements and adjustments for financial flows

494. The adjustments made to convert the record of international transactions to a financial flows basis frequently involve offsetting multilateral settlements. This occurs, for instance, when the intermediary country settles with both the two foreign countries in the currency of one of them. In the example given earlier (see paragraph 477), suppose that the Netherlands merchant buys the goods in the United States for dollars, ships them directly to Germany, and sells them to Germany for dollars. Table (i), above, shows the transaction as recorded in item 1 and the adjustments to the financial flows basis. Table (v), below, expands Table (i) to show also the multilateral settlements in dollars and the changes in dollar balances.

Table (v)

Compiling Country:	United States		Germany		Netherlands	
Statement with:	Germany	Netherlands	United States	Netherlands	United States	Germany
	(No sign indicates credit; minus sign indicates debit)					
1. Merchandise as recorded in item 1						
Exports f. o. b.	100	—	—	—	—	—
Imports f. o. b.	—	—	-100	—	—	—
20. Adjustment to financial flows basis for:						
Merchants' transactions	—	—	—	—	-100	100
Trade to purchase-sale basis	-100	100	100	-100	—	—
Merchandise on financial flows basis	—	100	—	-100	-100	100
Short-term assets	—	—	100	—	—	—
Short-term liabilities	-100	—	—	—	—	—
Multilateral settlements	100	-100	-100	100	100	-100

495. It is not essential, of course, that these offsetting entries be made. However, since not all adjustments involve offsetting multilateral settlements and vice versa, and since even the offsetting ones may be separate, identifiable, transactions, it is necessary to provide for separate entries for all adjustments and multilateral settlements in order to ensure that conceptually the compiling country's regional balance of payments is fully balanced. But if both sides of offsetting transactions can be omitted, this will little impair the analytic usefulness of the data, since, for purposes of analysis, adjustments to financial flows basis will frequently be combined with multilateral settlements.

TABLE B. REGIONAL BALANCE OF PAYMENTS SUMMARY

Part 1: Goods and Services, and Transfer Payments

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Areas		Unallocated		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
A. Goods and Services (1 through 8)						
1. Merchandise (consignment-ownership basis; from Supplement to Table B, item 8)						
2. Nonmonetary gold						
3. Freight and insurance on international shipments						
3.1. Freight						
3.2. Insurance						
4. Other transportation						
5. Travel						
6. Investment income						
6.1. Direct investment income						
6.2. Other dividends						
6.3. Other						
7. Government, not included elsewhere						
7.1. Military transactions						
7.2. Nonmilitary transactions						
8. Other services						
8.1. Nonmerchandise insurance						
8.2. Other						
B. Transfer Payments (9 plus 10)						
9. Private †						
9.1. To and from foreign governments						
9.2. Other						
10. Central government						
10.1. Intergovernmental						
10.2. Other						

† All residents other than the central government.

TABLE B. REGIONAL BALANCE OF PAYMENTS SUMMARY *(continued)*

Part 2: Movements of Capital and Monetary Gold

(No sign indicates credit; minus sign indicates debit)

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Areas		Unallocated		Total	
	Assets	Liabil- ities	Assets	Liabil- ities	Assets	Liabil- ities
C. Capital and Monetary Gold (11 through 16)						
11. Private ▲ long-term (including all direct investment)						
11.1. Direct investment						
11.2. Capital in associated enterprises						
11.3. Other common stocks						
11.4. Foreign central government securities		xxx		xxx		xxx
11.5. Other securities						
11.6. Other loans and trade credits						
11.7. Other assets and liabilities						
12. Private ▲ short-term (other than direct investment)						
13. Local governments ▲						
13.1.(a) Issues abroad	xxx		xxx		xxx	
(b) Retirements abroad	xxx		xxx		xxx	
13.2. Other securities						
13.3. Other assets and liabilities						
14. Central government ▲						
14.1.(a) Long-term issues abroad	xxx		xxx		xxx	
(b) Retirements abroad	xxx		xxx		xxx	
14.2. Other long-term securities						
14.3. Short-term securities						
14.4.(a) Drawings on long-term loans						
(b) Repayments on long-term loans						
14.5. Other long-term assets and liabilities						
14.6. Other short-term assets and liabilities						
15. Central monetary institutions						
15.1. Accounts with IMF						
15.2. Marketable assets		xxx		xxx		xxx
15.3. Deposits						
15.4.(a) Drawings on loans						
(b) Repayments on loans						
15.5. Other foreign assets and liabilities						
15.6. Gold		xxx		xxx		xxx
16. Other monetary institutions						
16.1. Marketable assets		xxx		xxx		xxx
16.2. Deposits						
16.3.(a) Drawings on loans						
(b) Repayments on loans						
16.4. Other foreign assets and liabilities						
16.5. Gold		xxx		xxx		xxx

▲Excluding monetary institutions.

TABLE B. REGIONAL BALANCE OF PAYMENTS SUMMARY *(concluded)*

Part 3: Reconciliation of Part 1 and Part 2

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Areas		Unallocated		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
17. Goods and Services (1 through 8)						
18. Transfer Payments (9 plus 10)						
19. Capital and Monetary Gold (net balance of assets and liabilities, 11 through 16)						
20. Regional Adjustments (20.1 through 20.8)						
20.1. Merchandise transactions abroad						
20.2. C.i.f. export freight and insurance						
20.3. Other intermediary transactions						
20.4. Merchandise to purchase-sale basis						
20.5. Freight and insurance to purchase-sale basis						
20.6. Other items to purchase-sale basis						
20.7. Processing						
20.8. Other						
21. Multilateral Settlements						
22. Total Net Transactions (17 through 21)						
23. Net Errors and Omissions						
24. Total (22 plus 23)						

NOTES TO ITEMS IN TABLE B

Item 1: Merchandise

496. The entries in the "total" columns for this item equal item 1 of Table A. Full details about the derivation of the entries for this item from basic data on merchandise trade are given in the Notes to Items in Supplement to Table B (paragraphs 529-44). In general, exports and imports (item 1.1 of Table A) should be allocated in the regional columns according to the consignment-ownership principle as follows: For transactions in goods that cross the customs frontiers of both the compiling country and the partner country, exports are to be allocated to the first country which both imports the goods physically across its customs frontiers and acquires ownership to them, either actually or by imputation. Imports are to be allocated to the last country which both exported them physically across its customs frontier and owned the goods at some time, either actually or by imputation. See General Note to Table I (paragraph 122) for discussion of goods for which a change of ownership is imputed.

497. If no country meets the consignment-ownership criterion, the classification for exports should be by the first country other than an intermediary acquiring ownership of the goods; and for imports, the last country other than an intermediary which had, at some stage, ownership of the goods. This will usually be the country of consumption for exports, e.g., exports to a foreign government for consumption outside its territory, and the country of production for imports, e.g., imports of fish shipped directly from fishing grounds to the compiling country.

498. Other merchandise (net), item 1.2 of Table A, should be entered in the "unallocated" column; see also note to item 20 (paragraphs 509-12) and note to item 6 of the Supplement to Table B (paragraph 536).

Item 2: Nonmonetary gold

499. The entry in the "total" columns for this item equals item 2 of Table A. In general, the regional allocation of nonmonetary gold should be as follows: Gold transactions of the private sector with foreigners (items 1 and 2 of Table II(a)) should be allocated to the country of purchase or sale. The difference between these transactions and the net nonmonetary gold movement should be entered in the "unallocated" column. This difference covers (1) gold transactions of the private sector with the compiling country's monetary sectors (item 3 of Table II(a)) and (2) the difference (item 9 of Table II(a)) between the net international gold transactions of the compiling country's monetary sectors and the change in monetary gold valued at parity. The totals of the regional credits and debits should not be entered gross in the "total" columns, but only their net sum.

Item 3: Freight and insurance on international shipments

500. The entries in the "total" columns equal item 3 of Table A and cover freight and insurance on international shipments. When item 3 of Table A is on an f.o.b. basis, the compiling country's receipts for transportation and insurance of its exports and of goods traded between foreign countries (cross and transit trade) should be allocated to the countries importing the goods. The compiling country's payments for transportation and insurance of its imports should be allocated to the countries of the operators of the carriers and the countries of the insurance companies, respectively.

501. As indicated in the General Note to Tables III.A, III.B, and IV (paragraph 193), the operator of a carrier is the person or enterprise who is the primary organizer of the transportation services provided by the carrier. When other evidence is not available to determine the operator of a ship and his country of residence, the flag of the ship may be taken as indicating the country of its operator; however, when the flag criterion is used, transactions with ships flying flags of convenience, e.g., those of Bermuda, Honduras, Liberia, and Panama, should be entered in the "unallocated" column.

502. When item 3 of Table A is on a c.i.f. basis, the compiling country's receipts for transportation and insurance of its exports and of goods traded between foreign countries (cross and transit trade) should be allocated to the countries importing the goods, i.e., in the same way as when item 3 is on an f.o.b. basis. However, the compiling country's receipts for transportation and insurance of its imports should be allocated to the exporting countries. This will offset the inclusion of these amounts in item 1, debit. If the remaining freight and insurance payments on imports were not paid to the exporting countries, such amounts should, in principle, be reallocated. However, if the data needed to convert imports from a c.i.f. basis to an f.o.b. basis are not available, the data for the reallocation will also not be available.

Items 4-8: Other goods and services

503. These items correspond to items 4-8 of Table A. The transactions should in general be classified by the country acquiring the goods and services as credits and the country providing the goods and services as debits. If, in exceptional cases, the transactions are conducted through countries regarded as only intermediaries, the intermediary countries should be disregarded in classifying the transactions by countries. For instance, a holding company may be regarded as only an intermediary in receiving income from a subsidiary in one foreign country and paying it out to the holding company's creditors in another foreign country. In this case the income should be considered as paid by the subsidiary's country to the country of the holding company's creditors.

Items 9 and 10: Transfer payments

504. These items correspond to items 9 and 10 of Table A. In most cases, transfer payments are made directly between the paying and receiving countries, and there is no difficulty in determining the correct regional allocation. For transfer payments through international organizations, the payment or receipt is allocated to the columns appropriate to the international organizations involved.

Items 11-16: Capital and monetary gold

505. These items correspond to items 11-16 of Table A. No precise rule appears necessary for the allocation of capital transactions by area, but it is assumed that, for reasons of reporting convenience, transactions in all assets and liabilities of the monetary sectors and in short-term assets and liabilities of the other sectors will be allocated to the country or area of residence of the foreign debtor or creditor, and transactions in long-term assets and liabilities of the nonmonetary sectors will be allocated to the country or area of residence of the foreign party to the transaction. This system provides a regional account of capital movements that is quite satisfactory for most analytic uses. In practice, the allocation will have to be accommodated to the available data. Figures representing changes derived from records of outstanding amounts will usually be classified according to the foreign debtor or creditor; those based on a record of transactions will show the foreign party to the transaction.

506. Two special cases are not covered by the system of regional allocation just described. The first concerns transactions between residents in foreign long-term assets (see "Underlying Principles," paragraph 31). When one of the parties to the transaction is a member of one of the nonmonetary sectors (it is highly unlikely that such transactions will take place between members of two different nonmonetary sectors), the foreign transactor criterion for regional allocation cannot, of course, be applied. In such cases, it is suggested that the country or area of residence of the foreign debtor be used. The transaction will then appear in the same regional columns in both the nonmonetary and the monetary sector involved.

507. The second special case is that of monetary gold (items 15.6 and 16.5), for which there is no foreign debtor. Transactions in gold between the monetary sectors and foreigners are allocated to the country or area of residence of the foreign purchaser or seller. Transactions in gold between the monetary sectors and other residents should be entered in the "unallocated" column (see note to item 2, paragraph 499).

508. Where several financial centers are grouped in the same regional column, explanatory notes to the balance of payments reports should as far as possible give separate data for each financial center for transactions in securities of the nonmonetary sectors and for changes in all assets and liabilities of the monetary sectors. For direct investment and loans, the explanatory note should give detail by country, if available.

Item 20: Regional adjustments

509. This item covers the adjustments that may be necessary to convert the regional balance of payments statement to a record of regional financial flows. There are four types of adjustment. First, items 20.1 through 20.3 cover transactions in goods and services in which the compiling country acted as an intermediary between two foreign countries. These transactions should be entered on a gross basis in the regional columns. The net balance of these entries should be canceled by equal and opposite entries in the "unallocated" column, since it is included in the "unallocated" column for item 1; the net balance on items 20.2 and 20.3 is likely to be nil.

510. Second, items 20.4 through 20.6 cover those transactions of the compiling country in goods and services that were carried out through foreign intermediaries. These transactions should be reallocated from the country with which the transaction is considered to be carried out to the intermediary country.

511. Third, item 20.7 covers those processing transactions involving more than one foreign country where a change of ownership has been imputed. The rationale of this adjustment is to replace the gross exports and imports with the net processing costs.

512. Fourth, item 20.8 covers any adjustments that are not appropriate to items 20.1 through 20.7 or, for statistical reasons, cannot be entered in the appropriate items.

Item 20.1: Merchandise transactions abroad

513. These entries account for financial flows arising from the compiling country's merchandise transactions abroad. The credit entries cover goods sold or granted to foreign countries during the reporting period or earlier periods by the compiling country's residents, e.g., merchants, direct investment companies, and government agencies. The goods should be valued at the f.o.b. market value in the country where they were acquired plus any other foreign costs, e.g., processing fees, paid by the compiling country's residents, plus merchants' gross profits. Any freight, insurance, and other expenses paid to residents should be excluded from the value of the goods, since such costs are included in items 3-8. The debit entries cover all purchases abroad during the reporting period by the compiling country's residents of goods for resale or grant to other foreigh countries. The credits should be allocated to the countries in which the foreign payers or donees are residents. The debits should be allocated to the countries in which the payees are residents.

Item 20.2: C.i.f. export freight and insurance

514. The credit entries cover the sale or grant to foreign importers by the compiling country's exporters of freight and insurance purchased from foreign carriers and insurance companies. Such transactions occur when exports are sold or granted on a c.i.f. basis. The debit entries cover the payments by the compiling country's exporters to the foreign carriers and insurance companies for the transport and insurance shown in the credit entries. The credit entries should be allocated to the countries of residence of the importers; and the debit entries, to the countries of residence of the carriers and insurance companies.

515. Freight and insurance paid by the compiling country's exporters to resident carriers and insurance companies should not be included here, but should be recorded as credits in item 3.

Item 20.3: Other intermediary transactions

516. For an example of other intermediary transactions, see note to items 4-8 (paragraph 503). Income received and paid out by intermediary holding companies, like similar intermediary transactions, should be entered as a credit under the country from which payment is received and as a debit under the country to which payment is made.

Items 20.4-20.6: Adjustments to purchase-sale basis

517. These entries refer to transactions of the compiling country in goods and services which were carried out through foreign intermediaries. The entries reallocate such transactions to the intermediary country. For exports of goods and services, a negative credit should be entered in the column for the country to which they have been allocated in items 1 through 8 and a credit in the column for the intermediary country. For imports of goods and services, a negative debit should be entered in the column for the country to which they have been allocated in items 1 through 8 and a debit in the column for the intermediary country.

Item 20.4: Merchandise to purchase-sale basis

518. In addition to adjustments to reallocate ordinary merchandise transactions to a purchase-sale basis, the adjustments in this item include those referring to two types of processing transactions: First, in the case where the compiling country acquires goods from one foreign country that have been processed for that country's account in a second foreign country and shipped from the second country to the compiling country, the imports should be reallocated from the second country to the first country. Second, in the case where the compiling country sells or gives goods to one foreign country which ships them directly from the compiling country to a second foreign country for processing, the exports should be reallocated from the second country to the first country. For details of these adjustments, see General Note to Table B, paragraphs 478-83. Other adjustments for processing transactions are made in item 20.7.

Item 20.7: Processing

519. This item covers those exports and imports of goods for processing in which changes of ownership to the goods are imputed (see General Note to Table B, paragraphs 478-83). The entries in these items adjust such transactions to a financial flows basis.

520. The adjustments cover those transactions in which (i) the compiling country exports goods to one foreign country for processing and then sells the goods, or gives them, to a second foreign country, (ii) the compiling country acquires goods in one foreign country, sends them to another foreign country for processing, and then imports them (if the compiling country sells the goods to a third foreign country, without first importing them, the transaction should be treated as a merchandise transaction abroad), (iii) one foreign country exports goods to the compiling country for processing and then sells the goods, or gives them, to another foreign country, (iv) one foreign country acquires goods in another foreign country, sends them to the compiling country for processing, and then imports them, or (v) sells them to a third foreign country. As indicated above, item 20.4 covers the adjustments (a) for imports of goods from one foreign country which were processed in that country for another foreign country's account, and (b) for exports of goods sold to one foreign country which ships them to another for processing.

521. In case (i), where goods owned by the compiling country have been exported to one foreign country for processing and sold or given to another foreign country, a credit entry should be made in the column for the country of the purchaser or donee; the entry should cover the value of the processed goods f.o.b. the processing country plus any freight and insurance paid by the compiling country for shipment of the goods from the processing country

to the purchasing country. An offsetting debit entry for the value f.o.b. the processing country should be made in the column for that country, and an offsetting debit entry for the freight and insurance, if any, should be made in the column for the country of the payee. In addition, if freight and insurance on the shipment from the compiling country to the processing country is paid to a third country, the amount paid should be entered as a debit in the column for the third country and as a credit in the column for the processing country.

522. In case (ii), where the compiling country has acquired goods abroad in one foreign country, sent them for processing in another foreign country, and then imported them, a debit should be entered in the column for the country where acquired and a credit in the column for the processing country. The entries should equal the value of the unprocessed goods f.o.b. the country where acquired. If freight and insurance are paid by the compiling country to a foreign country other than the processing country for the shipment of the goods to the processing country, the amount paid should be entered as a credit in the column for the processing country and as a debit in the column for the country of the payee.

523. In case (iii), where one foreign country exported goods to the compiling country for processing and then sold the goods, or gave them, to another foreign country, a credit should be entered in the column for the country exporting the goods to the compiling country for processing and a debit should be entered in the column for the country to which the goods are sold or given. The entries should equal the value of the processed goods f.o.b. the compiling country. If the goods are carried and insured from the exporting country to the compiling country by a third country and the freight and insurance payments are not paid by the compiling country, they should be entered as a debit in the column for the exporting country and as a credit in the column for the country carrying and insuring the goods.

524. In case (iv), where goods are imported from one foreign country for processing for account of another foreign country and exported to that country, the value of the unprocessed goods f.o.b. the first exporting country should be entered as a credit in the column for that country and as a debit in the column for the country for whose account the processing was done. If the goods were carried and insured from the exporting country to the compiling country by a foreign country other than the country owning the goods, and the freight and insurance costs are not paid by the compiling country, they should be entered as a credit in the column for the country carrying and insuring the goods and as a debit in the column for the country owning the goods.

525. In case (v), where one foreign country acquired goods in another foreign country, sent them directly from that country to the compiling country for processing, and then sold them to a third foreign country, the value of the unprocessed goods f.o.b. the country from which they were exported should be entered as a credit in the column for that country and as a debit in the column for the country owning them. Also, the value of the processed goods f.o.b. the compiling country should be entered as a debit in the column for the third country to which they

were sold and as a credit in the column for the owning (first) country for whose account the processing was done. In addition, if the goods were carried and insured from the exporting (second) country to the compiling country by any foreign country other than the country owning the goods and the freight and insurance costs were not paid by the compiling country, these costs should be entered as a credit in the column for the country carrying and insuring the goods and as a debit in the column for the country owning the goods.

526. The capital account includes entries for changes in imputed assets and liabilities associated with changes in goods held abroad for processing by the compiling country and changes in goods held by foreigners in the compiling country for processing. Taking these entries into account and those for transfer payments referring to processing transactions, the adjusted net balance on processing transactions entered in each regional column should be equal to net financial flows with the appropriate country or area on account of such transactions.

Item 20.8: Other

527. This item is a catch-all for those adjustments necessary to convert the balance of payments to a financial flows basis that are not appropriate to items 20.1 through 20.7 or cannot, for statistical reasons, be recorded in those items. Where convenient, an over-all adjustment for all transactions in goods and services of direct investment companies may be entered here. This adjustment should be calculated as follows: (1) negative credit and debit entries should be made in the appropriate columns for the transactions of direct investment companies as allocated regionally, and (2) net credit or debit entries should be made for the net amounts received (credit) or paid (debit) by direct investment companies from or to each country or area. The adjustments for processing transactions may also be calculated by a similar method.

Item 21: Multilateral settlements

528. See General Note to Table B, section (4), paragraphs 489-93. Multilateral settlements for which debit and credit entries apply to the same area (say, settlements in sterling with continental OEEC countries if the United Kingdom and these countries are combined in the same area in the regional classification) should not be entered.

SUPPLEMENT TO TABLE B

Regional Classification of Merchandise

Compiling Country .... Period Covered ....

Currency .... Unit .... Exchange Rate: US$ .... Per ....

Item	Areas		Unallocated		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Merchandise Trade						
1. Reported trade (Table I, item 1)						
2. Adjustments for uniform valuation basis (Table I, item 2)						
2.1. Internal freight						
2.2. Internal insurance						
2.3. International freight						
2.4. International insurance						
3. Other valuation adjustments (Table I, item 4)						
4. Coverage adjustments (Table I, item 5)						
4.1. Additions						
4.2. Deductions (enter with minus sign)						
5. Timing adjustments (Table I, item 6)						
5.1. Domestically owned stocks held abroad ■						
5.2. Foreign-owned stocks held in compiling country ■						
5.3. Trade credits extended ♦						
5.4. Trade credits received ♦						
6. Net balance on merchandise transactions abroad (Table I, item 8)	xxx	xxx		xxx		xxx
7. Adjustments to consignment-ownership basis					xxx	xxx
8. Adjusted total (1 through 7 = Table B, item 1)						
Memorandum Items						
9. Value of oil (9.1 plus 9.2)						
9.1. Crude oil in adjusted total						
9.2. Refined oil in adjusted total						
10. Quantity of oil; specify unit ________ (10.1 plus 10.2)						
10.1. Crude oil in adjusted total						
10.2. Refinery products in adjusted total						
11. Value of direct transit trade						

■ For trade data based on trade returns.
♦ For trade data based on exchange records.

NOTES TO ITEMS IN SUPPLEMENT TO TABLE B

529. This table gives a regional classification of the data in Table I, i.e., it shows how a regional classification of merchandise trade as defined for item 1 of Table A may be derived from the regional classification of the basic trade returns or exchange record. Three memorandum items to the table provide for recording supplementary information on oil exports and imports, and on certain shipments of goods not included in merchandise trade. These items cover the major types of transaction likely to be inconsistently reported between countries; they are needed as a means of reconciling data reported by the compiling country and its partner countries rather than as a supplement to the balance of payments statement for the compiling country.

Item 1: Reported trade

530. The entries in this item are allocated according to the classification by countries or currencies used in the basic source. Trade returns data are usually classified by one of three principles: (1) country of consumption for exports and production for imports, (2) country of consignment for both exports and imports, and (3) country of sale for exports and purchase for imports (see General Note to Table B, paragraphs 462-64). Exchange record data are usually classified by country of purchase or sale, or by currencies. When the allocation is by currencies, transactions in foreign currencies should be allocated to the country whose currency is used, and transactions in the compiling country's currency should be allocated to the country of residence of the foreign purchaser or seller.

Items 2 and 3: Valuation adjustments

531. The adjustments should be allocated to those countries to which the corresponding entries to be adjusted in item 1 are allocated.

Item 4.1: Coverage adjustments—Additions

532. The additions shown in item 5.1 of Table I should be allocated by the consignment-ownership criterion (see General Note to Table B, paragraph 461), as follows: For exports, the goods should be allocated to the first country which both imports the goods across its customs frontier and acquires ownership of them; for imports, the goods should be allocated to the last country which both exported the goods across its customs frontier and owned them at some time. If no country meets the consignment-ownership criterion, the classification for exports should be the first country, other than an intermediary, acquiring ownership of the goods, and that for imports, the last country, other than an intermediary, that at some stage owned the goods. This will usually be the country of consumption for exports, e.g., exports to a foreign government for

consumption outside its territory, and the country of production for imports, e.g., imports of fish shipped directly from fishing grounds to the compiling country.

Item 4.2: Coverage adjustments—Deductions

533. The deductions shown in item 5.2 of Table I should be allocated to those countries to which the corresponding entries in item 1 of this Supplement Table are allocated.

Items 5.1 and 5.2: Timing adjustments (trade returns)

534. As indicated in the notes to items 6.1 and 6.2 of Table I (paragraph 154), the adjustments for changes in stocks are designed to adjust trade returns data (a) for goods crossing the compiling country's customs frontier during the reporting period without an international change of ownership, and (b) for international changes during the reporting period in ownership of goods not crossing the compiling country's customs frontier during that period. The adjustments under (a), which will be negative, should be allocated to those countries to which the corresponding entries under item 1 are allocated. The adjustments under (b), which will be positive, should be allocated by the consignment-ownership criterion (see note to item 4.1, paragraph 532).

Items 5.3 and 5.4: Timing adjustments (exchange records)

535. As indicated in the notes to items 6.3 and 6.4 of Table I (paragraph 155), adjustments for trade credits are intended to adjust exchange record data (a) for payments during the reporting period for goods that do not change ownership internationally in that period and (b) for goods changing ownership internationally during the reporting period but not paid for in that period. The adjustments under (a) will be negative and those under (b) will be positive. Since the adjustments will be based on exchange record payments data, they will be classified on the same principle as item 1, e.g., by country of purchase and sale, or by currencies.

Item 6: Net balance on merchandise transactions abroad

536. In principle, profits on merchandise transactions abroad may be considered as transactions with the countries importing the goods. However, since the entry in this item is usually small and includes transactions other than profits, and since an allocation of the combined entry by real flows would be complicated, item 8 of Table I should be entered in the credit columns for "unallocated" and "total" of this table.

Item 7: Adjustment to consignment-ownership basis

537. This item records the reallocations that may be necessary to convert the regional classification of the basic data to a classification by country of consignment-ownership (see General Note to Table B, paragraph 461, and note to item 4.1 of this Supplement, paragraph 532). The rules for reallocation are as follows: If goods shown in the basic data as exports to country A are to be reallocated to country B, the country of consignment-ownership, a negative credit should be entered in the column for country A and a credit in the column for country B. Similarly, to reallocate imports from country C to country D, a negative debit should be entered in the column for country C and a debit in the column for country D.

538. The main cases in which the classifications in the basic data will not coincide with the consignment-ownership principle are described below.

539. If the basic data are trade returns classified by country of consignment, exports will need to be reallocated whenever the country to which the goods are consigned (shipped) does not acquire ownership and imports will need to be reallocated whenever the country from which the goods were consigned (shipped) did not own them. Any such shipments not deducted in items 4.2, 5.1, and 5.2 should be reallocated in this item. For exports, such transactions will include (1) goods sold to residents of one foreign country and shipped for their consumption in another foreign country, and (2) goods consigned to one foreign country, without a change of ownership to that country, for auction, assembly, processing, transshipment, storage, etc., and later in the same period shipped and sold to another foreign country. The exports should be reallocated from the country of consignment to the country of sale. For imports, such transactions will include the converse of case 2 above for exports, i.e., goods imported by the compiling country that were consigned from one foreign country but owned by and originally shipped from another foreign country.

540. If the basic data for imports are trade returns classified by country of production or origin, imports may need to be reallocated whenever imported goods are re-exports of a foreign country. For example, if foreign country A buys goods from foreign country B, imports them for minor processing, and re-exports them to the compiling country, the imports may be shown in the compiling country's trade returns as imports from country B, the country of origin or production, and therefore should be reallocated to country A, the country of consignment-ownership. Similarly, if the basic data for exports are trade returns classified by country of consumption or ultimate destination, exports may need to be reallocated whenever goods are sold and shipped to one foreign country which subsequently re-exports them to another foreign country.

541. If the basic data, whether trade returns or an exchange record, classify exports by country of sale and imports by country of purchase, those exports and imports that are merchandise transactions abroad for the partner country will need to be reallocated. Such exports and imports include, for example, those that are sold or purchased through foreign merchants who do not import the goods across the customs frontiers of their countries, and those that are purchased and sold by head offices of direct investment companies located outside the exporting and importing countries. Exports should be reallocated from the country of the merchant or head office to the first country acquiring ownership to the goods and importing them across its customs frontier. Imports should be reallocated to the last country that both owned the goods and exported them across its customs frontier.

542. If the basic data are an exchange record classified by currencies, exports and imports will need to be reallocated whenever they are paid for in a foreign currency other than that of the partner country as determined by the consignment-ownership principle.

Items 9 and 10: Oil

543. Since some of the major discrepancies in the trade data reported by partner countries are likely to stem from transactions in oil, items 9 and 10 call for detail of the value and volume of exports and imports of oil by area included in the adjusted total in item 8. The volume data should be given in metric tons.

Item 11: Direct transit trade

544. Some countries maintain records of transit trade, i.e., movements through their territories of goods not recorded by customs as general imports for consumption, re-export, or entry into bonded warehouses. Such goods may be allocated by the exporting countries as exports to the transit country but the importing countries are likely to enter the goods in their trade returns as imports from the original exporting countries. Therefore, records of transit trade are useful to reconcile the trade returns of different countries.

Index

INDEX

(The numbers refer to paragraphs)

INDEX

(The numbers refer to paragraphs)

INDEX

(The numbers refer to paragraphs)

INDEX

(The numbers refer to paragraphs)