MAIN AMENDMENTS IN THE METHODOLOGY OF THE EXTERNAL SECTOR STATISTICS COMPILATION

At the beginning of 2013, the National Bank of Ukraine began to publish statistics of the external sector (balance of payments, international investment position, and external debt) according to the 6th edition of the *Balance of Payments and International Investment Position Manual.* Before, the external debt statistics was based on the 5th edition of the *Balance of Payments Manual (BPM5).*

The new 6th edition of the *Balance of Payments and International Investment Position Manual (BPM6)* was published at the beginning of 2009 by the IMF[1]. Methodological changes were caused by the necessity of accounting of impacts of globalization processes, financial and technological innovations as well as by increasing attention to the use of balance data in the external vulnerability analysis. Besides, BPM5 was revised along with the renewal of *System of Electronic Payments* by the United Nations Statistical Commission (the new version was published in 2008) in order to coordinate different branches of the macroeconomic statistics.

A number of counties, such as Austria, India, Korea, Singapore, Thailand, Belarus, Russia, Armenia, Bosnia, Herzegovina, etc. have already published balance of payments data according to BPM6. Some countries planned to implement BPM6 in 2013, while Eurosystem countries will do it in 2014. In August 2012, the IMF began to publish balance of payments statistics in its database of international financial statistics (IFS) and in the annual statistical publication of the balance of payments (BOPSY) in the BPM6 format.

Ukraine began to prepare to the transition to the new methodology in 2009. There were made necessary changes in report forms, improved existing calculation methods and implemented the new ones, and reclassified data in some items. Data for 2005 – 2012 in the two formats and explanations for users were published in March 2013 for the first time.

The conceptual basis of BPM6 remained unchanged in comparison with BPM5; at the same time, there were made changes in names of some items and approaches to items formation. The most significant changes in the balance of payments of Ukraine owing to transition to BPM6 are given below.

Changes in presentation

According to BPM5, the financial and capital accounts were commingled into one account viz. capital and financial account. In accordance with BPM6, the current and capital accounts are commingled. The sum of their balances is net lending (+)/net borrowing (-) with respect to the rest of the world. The balance of payments is compiled with the use of the double-entry system, so this index must be equal to the financial account balance (taking into account errors and omission).

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[1] http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm

Table 1. Balance of payments in 2012 in the two formats

USD billions

Balance of payments items	BPM5	BPM6
Current account	**-14.3**	**-14.3**
Capital and financial account	**12.9**	
Capital account	0.0	0.0
Net lending (+)/net borrowing (-)		-14.3
Financial account	**12.9**	**-12.9**
Direct investment	6.6	- 6.6
Portfolio investment	4.7	-4.7
Other investment	-6.0	6.0
Reserve assets	7.6	-7.6
Net errors and omissions	**1.4**	**1.4**
Balance	**0.0**	**0.0**

In the current and capital account, credit and debit operations are reflected with the "plus" sign (according to BPM5, debit operations were reflected with the "minus" sign). So, the balance is the difference between credit and debit indices (according to BPM5, the balance was the sum of the credit and debit indices).

The presentation of financial account items was changed. According to BPM5, an increase in assets was registered with the "minus" sign, whereas their reduction – with the "plus" sign. According to BPM6, the sign indicates an increase or decrease in assets/liabilities by separate instruments, i.e. a change with the "plus" sign denotes an increase in assets/liabilities, whereas the "minus" sign shows their decrease. A change in every type of assets is called "net acquisition of assets" (the difference between assets acquisition and disposal), while a change in every type of liabilities is called "net incurrence of liabilities" (the difference between incurrence of new liabilities and discharge of them).

According to BPM6, the balance of every category of the financial account or "net lending/borrowing" is the difference between net acquisition of assets and net incurrence of liabilities (according to BPM5, the balance was the sum of flows of assets and liabilities.

Now, the sign of the balance of separate categories of the financial account and of the total financial account balance will be opposite. According to BPM5, the positive balance showed an excess of a capital inflow in the country over its outflow. Now, in this case, the financial account balance will be negative and will show an excess of the net increase in liabilities over the net increase in assets, or the "net borrowing". The "net lending", or the positive balance will show that the economy allots funds to the rest of the world i.e. the net increase in assets exceeds the net increase in liabilities, or the country discharges existing liabilities (according to BPM5, the financial account balance was with the "minus" sign in this case).

Changes in classifications (names)

The names of institutional sectors were changed as follows:

- "Central bank" instead of "Monetary authorities";
- "Deposit-taking corporations, except the central bank" (the short name will be "Banks") instead of "Banking sector".

The names of some items were changed as follows:

- In the current account, the *Income* item was changed into *Primary income* item, and the *Current transfers* item – into *Secondary income* item;
- In the *Financial account, portfolio investment* item, the *Bonds and other long-term debt securities* item was changed into *Long-term debt securities* item, and Money market instruments item – into *Short-term debt securities;*
- In the *Financial account, other investment* item, the *Trade credits* item was changed into *Trade credit and advances* item.

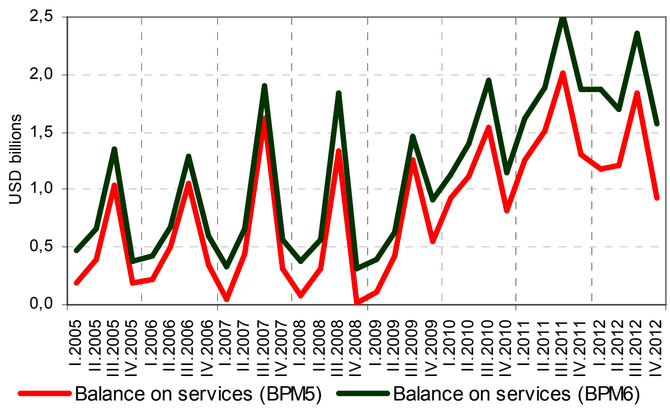
Changes in approaches and formation of items

In the current account, the most significant changes were made in approaches to reflection of goods for processing. According to BPM5, goods for processing were recorded in exports and imports of goods in gross terms. According to the new methodology, the value of goods for processing and the value of finished products made of these goods are not included in the general exports/imports of goods. At the same time, in the *Services* item, there is reflected the value of services on processing of material resources of other parties.

In Ukraine, services on processing of raw materials supplied by the customer are widespread in many branches, primarily, in oil processing and light industry. That is why the change in the methodology leads to a sizable decrease in exports and imports of goods, in particular, in 2012, down by 7.4% and 3.8%, correspondingly. At the same time, exports of services increase, up by11.5%. Thereby, the external trade balance remains almost unchanged, whereas the trade balance worsens, and the balance of services improves.

Chart 1.
Impact of methodological changes on external trade indicators
(a) Balance of goods

(b) Balance of services



(c) Exports of goods and services

(d) Imports of goods and services

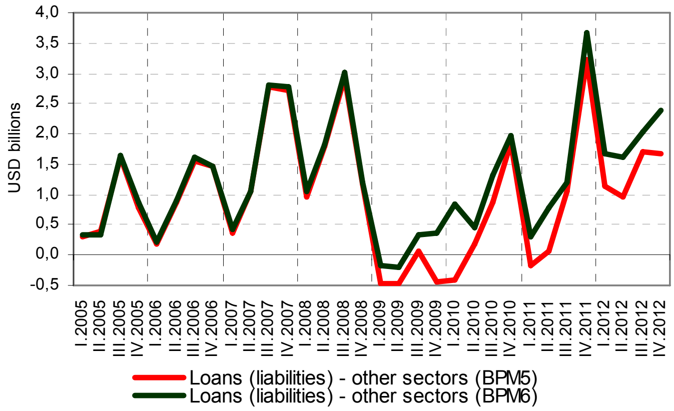
In the financial account, there were changed approaches to recording of terms of debts and arrears repayment. According to BPM6, actual changes in the external debt are recorded by the main instrument, whereas according to BPM5, scheduled repayments were given by the primary instrument, while accumulation and repayment of arrears were recorded in the *Other assets/Other liabilities* items.

Generation of sizable overdue debts by residents of Ukraine in 2009 – 2012 is reflected with the "plus" sign in the Other liabilities *item, whereas certain "revaluation" of a net capital inflow was reflected in the main instrument.*

Chart 2.

Impact of methodological changes on changes in liabilities on other sector loans

Loans (liabilities) – other sectors

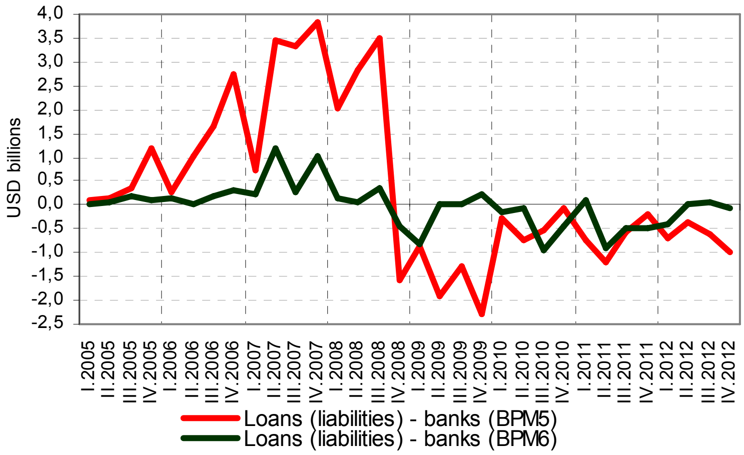


Interbank loans were transferred from the *Loans* item to the *Currency and deposits* item (in case of interbank operations, there were no principal differences between a loan and a deposits). *As a result sizable interbank loans borrowed by Ukrainian banks in 2006 – 2008 and their repayment in 2009 – 2012 are now recorded in the* Currency and deposits *item instead of* Loans *item.*

Chart 3.

Impact of methodological changes on changes in liabilities on banks loans and deposits

(a) Loans (liabilities) – banks



(b) Currency and deposits (liabilities) – banks