

METHODOLOGICAL COMMENTARY
ON EXTERNAL SECTOR OF UKRAINE STATISTICS
*(according to the Sixth Edition of the Balance of Payments
and International Investment Position Manual)*

In Ukraine, the responsibility for *BOP compilation* was laid on the National Bank of Ukraine on legal ground (Article 7 of the Law of Ukraine “On the National Bank of Ukraine”, Decree of the Cabinet of Ministers of Ukraine “On the System of Foreign Exchange Regulation and Control” of 19 February 1993). The Joint Decree of the NBU and the Cabinet of Ministers of Ukraine “On Balance of Payments Compilation” No. 517 of 17 March 2000 established the order of coordinating activities of ministries and departments with respect to forming of the BOP information base.

As of today, the National Bank of Ukraine (hereinafter called the NBU) ensures compilation and publication of the external sector statistics in accordance with the *Sixth Edition of the Balance of Payments and International Investment Position Manual* (IMF, 2009) and *External Debt Statistics: Guide for Compilers and Users* (the *External Debt Guide*, IMF, 2013).

Periodicity and terms of external sector statistics compilation correspond to requirements of the Special data Dissemination Standard:

- (a) **Balance of payments** is compiled quarterly on the 75th day after the reporting period;
- (b) **International investment position** is compiled quarterly on the 85th – 90th day after the reporting period;
- (c) **External debt** is compiled quarterly on the 75th – 80th day after the reporting period.

Moreover, **estimation of monthly balance of payments data** is published on the 25th – 30th day after the reporting period for online analytical processing and decision-making in the economic policy area.

1. General Provisions

1.1. Terms and Conceptual Framework

The conceptual framework of the external sector statistics is based on the *Sixth Edition of the Balance of Payments and International Investment Position Manual* (IMF, 2009) (hereinafter called BPM6). Up to the end of 2012, the statistics were compiled in accordance with the Fifth Edition of the Balance of Payments Manual (BPM5, IMF, 1993).

The international accounts for an economy summarize the economic relationships between residents of that economy and nonresidents. They comprise the following:

- (a) **Balance of payments** – a statement that summarizes economic transactions between residents and nonresidents during a specific time period; and

- (b) **International investment position (IIP)** – a statement that shows at a point in time the value and structure of the external financial assets and liabilities of residents of the economy to nonresidents.

1.1.1. Residence and Economic Territory

The residence of each institutional unit is the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest. An institutional unit (natural person or legal entity) is **resident** in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational definition; although the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.

Nonresidents include:

- (a) Natural persons (foreign citizens, citizens of Ukraine, or stateless persons) whose permanent place of residence is abroad or whose residence on the territory of Ukraine is temporary;
- (b) Legal entities and entrepreneurs that do not have the status of legal entities (affiliates, representative offices, etc.), whose residence are abroad, which were created and operate in accordance with the laws of a foreign country;
- (c) Foreign diplomatic, consular, trade and other official representations, international organizations and their affiliates, which are entitled to privileges and immunities as well as representative offices of other organizations and firms not engaged in entrepreneurial activity based on the laws of Ukraine, which are situated on the territory of Ukraine.

An **economic territory** is the area under the effective economic control of country's government. The economic territory includes:

- (a) the land area;
- (b) airspace;
- (c) territorial waters, including areas over which jurisdiction is exercised over fishing rights and rights to fuels or minerals;
- (d) in a maritime territory, islands that belong to the territory; and
- (e) territorial enclaves in the rest of the world.

These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic status) that are physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located. These areas may be shared with other organizations, but the operations must have a high degree of exemption from local laws to be treated as an enclave. However, government operations that are fully subject to the

laws of the host economy are not treated as enclaves, but as residents of the host economy.

1.1.2. Institutional Sectors

Data for primary and secondary incomes covered by the current account items as well as data for capital and financial account items are reflected in accordance with the economic sector of a resident participating in a transaction.

There are four economic sectors:

- (a) Central bank;
- (b) Deposit-taking corporations (banks), except the central bank;
- (c) General government;
- (d) Other sectors (other financial corporations, non-financial corporations, households, and non-profit institutions serving households).

1.1.3. Classification of Financial Assets and Liabilities

The functional categories are the primary classification used for each of financial transactions, positions, other changes in assets and liabilities, and income in the international accounts. To analyze transborder flows (transactions) and positions financial instruments are divided by functional categories in accordance with economic motives and behavior models.

Five functional categories of investment are distinguished in the international accounts:

- (a) Direct investment;
- (b) Portfolio investment;
- (c) Financial derivatives (other than reserves) and employee stock options;
- (d) Other investment; and
- (e) Reserve assets.

There are no such categories within the System of National Accounts, and financial flows are reflected exclusively in terms of financial instruments.

Components of the financial account and international investment position are also classified by:

- (a) Financial instruments viz. instruments of participation in capital and investment funds, debt instruments, and other financial claims and liabilities; and
- (b) Maturity: the maturity of a debt instrument is classified as either short-term or long-term; short-term is defined as payable with a maturity of one year or less; long-term is defined as having a maturity of more than one year.

1.1.4. Accounting Rules

The balance of payments is based on the double-entry accounting system: each transaction leads to at least two corresponding entries, traditionally referred to as a credit entry and a debit entry. This rule shows that the essence of the majority of economic

operations is the exchange of economic values. The secondary income account shows redistribution of income, that is, when resources for current purposes are provided by one party without anything of economic value being supplied as a direct return to that party. Examples include personal transfers and current international assistance.

The implementation of the double-entry accounting system results in the fact that the balance of the sum of all the credit entries and the sum of all the debit entries must amount to zero. The difference between the sum of all the credit records and the sum of all the debit records shows time and value discrepancies and is called “Net errors and omissions”. This difference is recorded in the respective balance sheet item according to the double-entry accounting.

Credit records of the current and capital accounts include the following:

- (a) Exports of goods and services;
- (b) Primary and secondary income before obtainment;
- (c) Exits of non-production nonfinancial assets.

Debit records include the following:

- (a) Imports of goods and services;
- (b) Primary and secondary income before payment;
- (c) Entrances of non-production nonfinancial assets.

Accounting of assets and liabilities of the financial account is made by every financial asset or liability (as a result of all the credit and debit operations during the reporting period). When reflecting operations with financial assets and liabilities the terms “net acquisition of financial assets” and “net incurrence of liabilities” are used. Net acquisition of financial assets is an increase in assets after deduction of their decrease. Net incurrence of liabilities is an increase in liabilities after deduction of their decrease. The change with the “plus” sign shows an increase in assets or liabilities, whereas the change with the “minus” sign shows a decrease in them.

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.

All the balance of payments operations are recorded according to the market price (the price at which a seller is ready to sell goods or services, and a buyer is ready to buy them). Such market price may differ from the price that is rated on the market.

1.1.5. Data Presentation

In the *standard presentation of the balance of payments*, main balance of payment components are grouped by three accounts viz. current, capital and financial accounts.

The sum of the current account and capital account balances is net lending (with the “plus” sign) or net borrowing (with the “minus” sign) with respect to other countries. Taking into account the double-entry accounting principle, the above mentioned sum must equal to the financial account balance (with errors and omissions taken into account).

Net lending (the balance with the “plus” sign) shows that a net increase in assets exceeds a net increase in liabilities. Net borrowing (the balance with the “minus” sign) shows that a net increase in liabilities exceeds a net increase in assets.

In the *analytical presentation of the balance of payment*, operations reflecting changes in official reserve assets, loans borrowed by the government to finance the balance of payments deficit, and exceptional financing are moved off from the financial account.

1.2 Balance of Payments Compilation in the National Bank of Ukraine

In the National Bank of Ukraine, the compilation of the external sector statistics is made by the Balance of Payments Department of the General Economic Department.

The balance of payments compilation is based on data of the system of accounting of operations with nonresidents (International transactions registration System, hereinafter – ITRS); the system has been implemented and operates in the NBU. ITRS data are supplemented with statistical investigation data that are made by the State Statistics Service of Ukraine. The data gathering system was introduced in 1993; it is based on banking transactions. According to the system, information is given by two categories of respondents: (a) banks that declare operations with nonresidents, which were conducted during every month on behalf of customers and on their own (form # 1-ПБ); and (b) enterprises and organizations that opened accounts with foreign banks (form # 2- ПБ).

In Ukraine, the information gathering system is closed. In addition to debit and credit turnovers in correspondent accounts by breakdown of operations, banks give information concerning balances in correspondent accounts at the beginning and at the end of the reporting period. The information is given in the original currency by every correspondent account (nostro and loro) and is coded in accordance with the standard classification of the BPM6. The national Bank converts the received data into US dollars according to the average monthly exchange rate.

The National Bank of Ukraine uses also the following data for the balance of payments compilation:

- (a) Official data of the State Statistics Service of Ukraine concerning:
 - Trade statistics based on data of customs statistics;
 - Merchandise trade and direct foreign investment in Ukraine and from Ukraine;
- (b) Data of the following bodies:
 - State Fiscal Service of Ukraine;
 - Government organizations;
 - International Monetary Fund;
 - Other international financial institutions, etc.

Besides, there are used data of various statistical surveys and expert estimates.

The coverage of balance of payments data on a monthly basis is lesser than that of quarterly data, because some statistical reports are quarterly, and some monthly data come with a sizable time lag. This is the reason why monthly data of the balance of

payments are called estimates, taking into account a high level of estimation of some items. This estimation is based on available monthly returns and statistical models for indirect estimation of economic indicators.

1.3.Data Publication

The balance of payments data are compiled quarterly on the 75th – 80th day after the quarter under review and published on the official website of the National Bank of Ukraine at <http://www.bank.gov.ua> (sections: Statistics/External sector/Balance of payments).

Data for previous periods can be revised quarterly due to returns adjustment, methodological changes, or new sources of information. The annual data are considered as final after nine months since the end of an accounting period.

Monthly data are published on the 25th – 30th day after the month under review; they are given in the analytical form of presentation and are not detailed in comparison with quarterly data. After publication of quarterly data of the balance of payments the monthly balance of payments is adjusted to the quarterly data.

The international investment position (hereinafter – IIP) is published quarterly on the 85th – 90th day after the end of the reporting period on the official website of the National Bank of Ukraine at <http://www.bank.gov.ua> (sections: Statistics/External sector/International investment position).

The international investment position can be revised within two years after its first publication being attended with comments about changes made.

2. Current Account

2.1. General Provisions

The current account reflects flows of goods, services, and primary and secondary income between residents and nonresidents.

The goods and services account shows transactions in items that are outcomes of production activities. The focus of this account is the point at which goods and services are exchanged between a resident and a nonresident.

The corresponding entries to goods and services flows may be in the financial, current, or capital accounts.

Goods (*in accordance with BPM6*) are physical, produced items over which ownership rights can be established and whose economic ownership can be passed from one institutional unit to another by engaging in transactions.

According to the methodology for the balance of payments compilation, the following cases are included in the balance of payments definition of general merchandise goods in addition to traditional merchandise exports:

- Electricity, gas, and water. However, charges invoiced separately for the transmission, transport, or distribution of these products are included in services under transport and other business services;
- Banknotes and coins not in current circulation. They are valued as commodities, rather than at face value.
- Noncustomized packaged software (systems and applications), and video and audio recordings, on physical media, such as disks and other devices, with a license for perpetual use are included in general merchandise. These products are included at their full transaction value (i.e., not at the value of the empty disks or other storage device).
- Goods procured in ports by carriers (fuel, foodstuffs, stocks, etc.);
- Goods supplied or acquired by carriers away from the territory of residence of the operator. For example, fish and other marine products caught by ships operated by residents of the compiling economy and sold abroad directly should be included.
- Goods acquired by a lessee under a financial lease.
- Humanitarian aid in the form of goods;
- Illegal goods as well as smuggled goods that are otherwise legal, etc.

Exports of goods also include net exports of goods which cover *transactions involving resale of goods abroad*. Resale of goods is considered as the purchase of goods in an economy by a resident of his own economy for further resale of these goods in other economy without importation of the goods in the economy on the resident. The purchase of goods for their resale is reflected in the goods item as a negative exports of the country, while the sale of goods is reflected in the item of goods that were resold abroad as a positive exports of country-trader. The difference between the sum of sales and the sum of purchases of goods is reflected in the *Net exports of goods involving resale of goods abroad* item.

Because there is no change of ownership of goods between a resident and a nonresident, or because the goods have no value, the following cases are excluded from general merchandise:

- (a) Goods for assembly, packing, labeling, or processing by an entity that does not own the goods concerned;
- (b) Transit trade;
- (c) Migrants' personal effects;
- (d) Goods consigned to embassies, military bases, and so forth from their home authorities and vice versa;
- (e) Goods temporarily exported or imported without a change of ownership. Examples include goods for repair, as part of an operating lease, and for storage, and animals or artifacts for participation in exhibitions or competitions.

Exports and imports of goods are reflected at market prices. In accordance with the balance of payments compilation methodology, exports and imports of goods are

recorded on a FOB¹ basis in order to ensure comparability. It means that the value of goods includes expenses for their transportation to the customs border of a country-exporter and plus costs of loading on the customs border (a seller does not bear responsibility for goods unloading). According to the merchandise trade methodology, imports of goods are accounted at CIF² prices. It means that the value includes cargo transportation and insurance from the border of a country-exporter to the border of a country-importer. Therefore, in the balance of payments, total imports of goods are recorded without cargo transportation and insurance costs to the border of a country-exporter.

Standard components in compliance with BPM6 are given in the table below:

| Components | Exports (credit) | Imports (debit) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------------|
| 1. Exports/imports of goods according to the BOP methodology | | |
| <i>including reexports</i> | | |
| 2. Net exports of goods which cover transactions involving resale of goods abroad: <i>Goods purchased (transactions involving resale of goods abroad) – negative exports;</i> <i>Goods sold (transactions involving resale of goods abroad) – exports;</i> | | |
| 3. Nonmonetary gold | | |
| 4. Total goods (= 1 + 2 + 3) | | |

¹ The FOB basis ensures the single basis for assessment of goods value and makes it possible to obtain indices for national accounts and balance of payments compilation, to carry out investigations on data adjustment, and to analyze bilateral trade, etc. The goods value being negotiated by trade agreement participants is reflected in the invoice and depends on conditions of supply. The conditions of supply are the subject of the agreement between a seller and a buyer viz. the agreement specifies the responsible party that pay the cost of delivery and bear the risks related to delivery of goods to the agreed place. Various conditions of supply used in the merchandise trade are determined by the official rules of interpretation of commercial terms (Incoterms, 2010) published by the International Chamber of Commerce (ICC). According to these rules, the term “FOB” means “Free On Board” viz. the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays freight, insurance, unloading costs and transportation from the port of destination to his factory. The passing of risks occurs when the goods pass the ship's rail at the port of shipment. This term can be used solely in cases when goods are transported by sea or internal water transport.

² CIF (Cost, Insurance and Freight) means that a buyer got a delivery form a seller when goods pass the ship's rail at the port of destination. The seller must pay the costs and freight including insurance to bring the goods to the port of destination. Risk is transferred to the buyer once the goods are loaded on the ship. The seller has responsibility to provide for sea insurance in favor of the buyer against risk of loss or accidental spoilage of the goods when transporting them.

Services. Services reflect the result of production activity which leads to changes in conditions of institutional units-consumers or facilitates exchange in products or financial assets. Standard components of the *Services* item correspond to the classification and methodology of the *Manual on Statistics of International Trade in Services (2010)*.

Transport is the process of carriage of people and objects from one location to another (in particular, lease (freight) of means of transport with the crew) as well as related supporting and auxiliary services. Also included are postal and courier services. Transportation services are classified by type of transport (sea, air, rail, pipeline, motor and other transport). The procedure of accounting of freight transport is based on the single principle of cost estimates of goods – at FOB prices.

Travel credits cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy. *Travel debits* cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies. Goods or services acquired by persons undertaking study or medical care while outside their territory of residence are included in travel if they stay in the country not more than a year. The one-year criterion does not apply to students and patients of medical institutions which remain residents of their own country. *Travel* excludes goods for resale, which are included in general merchandise. The acquisition of consumer durable goods (such as cars and electric goods), and other consumer purchases for own use or to give away that are included in customs data in excess of customs thresholds is included in general merchandise.

Manufacturing services on physical inputs owned by others cover processing, assembly, labeling, packing, and so forth undertaken by enterprises that do not own the goods concerned. The services cover the transaction between the owner and processor, and only the fee charged by the processor is included under this item. The fee charged may cover the cost of materials purchased by the processor. Manufacturing services on physical inputs owned by others refer to all work done on goods by a resident of one economy for the owner of goods who is resident in another economy.

Maintenance and repair services n.i.e. cover maintenance and repair work by residents on goods that are owned by nonresidents (and vice versa).

Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth.

Insurance and pension services include services of providing life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pensions, standardized guarantees, and auxiliary services to insurance, pension schemes, and standardized guarantee schemes.

Financial services cover financial intermediary and auxiliary services, except insurance and pension fund services. These services include those usually provided by banks and other financial corporations. They include deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring,

underwriting, and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services.

Charges for the use of intellectual property n.i.e. include:

- (a) Charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; and
- (b) Charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).

Telecommunications, computer, and information services cover radio and television cable transmission, radio and television satellite, electronic mail, mobile telecommunications services, Internet backbone services, and online access services, including provision of access to the Internet; hardware- and software-related services and data-processing services; maintenance and repairs of computers and peripheral equipment; software products without the right to reproduce or distribute them; news agency services, such as the provision of news, photographs, and feature articles to the media; direct nonbulk subscriptions to newspapers and periodicals.

Other business services include research and development; professional and management consulting services; legal services and accounting; advertising and market research; architectural, engineering, and other technical services; waste treatment and depollution, agricultural, and mining services; operational leasing; trade-related services; and other business services.

Personal, cultural, and recreational services consist of (a) audiovisual and related services and (b) other personal, cultural, and recreational services (health services, education services, services associated with museums and other cultural, sporting, gambling, and recreational activities).

Government goods and services n.i.e. cover:

- (a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations;
- (b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and
- (c) services supplied by and to governments and not included in other categories of services.

Primary income account. The primary income account shows primary income flows between resident and nonresident institutional units. It represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units. The account distinguish the following types of primary income:

- (a) compensation of employees;
- (b) investment income; and
- (c) other primary income.

Compensation of employees presents remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise. In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies. For the economy where the producing units are resident, compensation of employees is the total remuneration, in cash or in kind, payable by resident enterprises to nonresident employees in return for work done by the latter during the accounting period. For the economy where the individuals are resident, it is the total remuneration, in cash or in kind, receivable by them from nonresident enterprises in return for work done during the accounting period.

Investment income reflects return on financial assets. The investment income structure is adjusted to the financial account structure and includes direct investment, portfolio investment, other investment, and reserve assets. Investment income includes dividends and withdrawals from income of quasi-corporations, reinvested earnings and interest.

Other primary income includes rent (in particular, income receivable for putting natural resources at the disposal of another institutional unit. Examples of rent include amounts payable for the use of land extracting mineral deposits and other subsoil assets, and for fishing, forestry, and grazing rights. The account also includes taxes and subsidies for products and production.

Secondary income account. The secondary income account shows current transfers between residents and nonresidents. A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other nonproduced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value. Current transfers include personal transfers, current taxes on income, wealth, etc., social contributions, social benefits, net premiums on nonlife insurance and standardized guarantees, nonlife insurance claims and calls under standardized guarantees, current international cooperation, and miscellaneous current transfers. Current transfers increase the level of income and consumption of goods and services in the recipient economy and decrease the income and potentialities of the donor economy (for example, humanitarian aid, technical assistance, contributions of international institutions, remittances of natural persons, etc.).

2.2. Compilation of Items

Goods. The main source of the international trade data is information of the State Statistics Service of Ukraine which is based on cargo customs declarations and enterprises' reports on the goods that shall not be declared at customs (fish caught in the open sea and sold abroad, goods procured in ports by carriers, etc.). To compile the balance of payments these data are adjusted by coverage (informal trade) and for classification (conversion of import prices from CIF to FOB, exclusion of goods for processing).

Informal trade is excluded from the merchandise trade statistics compiled by the State Statistics Service of Ukraine, and its volumes are calculated on the basis of a series of expert estimates. In particular, they are based on comparison of data on imports of consumer goods according to customs statistics data and estimated sales of imported consumer goods through all sale channels (based on State Statistics Service of Ukraine data on retail trade turnover, data of government statistical observations concerning the portion of imported goods in the retail trade turnover, and estimation of the portion of trade and transportation extra charge in the value of sold goods). There is also used State Fiscal Service of Ukraine information about the number of passenger cars imported by natural persons to Ukraine, the amount of taxes and duties paid by the citizens when importing motor cars and other goods on the territory of Ukraine. Exported goods excluded from the State Statistics Service of Ukraine statistics are calculated on the ground of data and expert estimates of countries – main trade partners, data of mass media and Internet, etc.

In accordance with the methodology for compilation of the merchandise trade statistics used by the State Statistics Service of Ukraine, imports are recorded on a CIF basis. Therefore, to generate the BOP *Imports of goods* item transportation and insurance costs are deducted from the total imports. For this purpose there is used the annual information of the State Statistics Service of Ukraine about the portion of insurance and freight in imports of goods according to freight customs.

Transactions without the passing of property between a resident and a nonresident are excluded from the BOP *Exports/imports of goods* item.

Exports and imports of goods are recorded at a moment when property is passing from a nonresident to a resident or vice versa, the transactions being at market prices (for convenience, it is considered that the passing of property concurs with the time of customs registration). In the majority of cases, contract prices or actual prices at the moment of transactions are used.

Services. Bank reports data on transactions with nonresidents (ITRS) as well as quarterly statistical reports of the State Statistics Service of Ukraine on exports/imports of services are main sources of information about international services. The transactions are coded in accordance with the standard classification of services pursuant to BPM6. When generating the *Services* item there are made expert estimates of some types of services.

Data of the ITRS system as well as quarterly statistical reports of the State Statistics Service of Ukraine on exports/imports of services are main sources for generation of the *Transport* item. Data on adjustment of prices of imported goods to a FOB basis are used for estimation of the cost of freight transport. Calculations are made for all models of transport.

Volumes of services covered by the *Travel* item are estimated on the basis of quarterly data on the number of foreign citizens that entered into Ukraine, the number of Ukrainian citizens that went abroad (by country and purpose of a trip), average expenses of a traveler, and average length of a trip. Data of statistical observations made by the State

Border Guard Service of Ukraine Administration are the source of information about the number of persons that enter into Ukraine or go abroad. Legislative acts of the Cabinet of Ministers of Ukraine on the amount of compensations for business trips in Ukraine and abroad, statistical observations made by the State Statistics Service of Ukraine, data of the State Agency for Tourism and Resorts, mass media and Internet are the source of information about average expenses for trips and the length of trips. The *Travel* item also includes expenses of labor migrants employed for a short period of time abroad in their host countries.

Volumes of exports covered by the *Manufacturing services on physical inputs owned by others* item are calculated in accordance with the Methodology of State Statistic Service of Ukraine on the basis of state statistical surveys data.

Exports/imports of services covered by the *Insurance and pension services* item are estimated by the National Bank of Ukraine in accordance with its own methodology. Results of estimation are compared with Information of the National Commission for Regulation of Financial Services Market in respect of international insurance transactions on yearly basis.

Generation of the *Government goods and services n.i.e.* item is based on Ministry of Economic Development and Trade of Ukraine data on volumes of technical assistance.

Primary income. Estimation of compensation of employees volumes is based on ITRS data on the volumes of compensation of employees, private remittances, and cash additional calculations which came in Ukraine through informal channels.

The ITRS system, Ministry of Finance of Ukraine information about servicing of guaranteed loans and external borrowings of Ukraine's government, and data of banks' statistical reports on private sector loans are the main source for generation of data on investment income.

Secondary income. To compile the secondary income statistics of the government sector there are used data on technical assistance provided to the government by the Ministry of Economic Development and Trade of Ukraine; they are supplemented with data on cash contributions of government bodies, which were obtained according to banks' reports on operations with nonresidents (flows of funds in correspondent accounts).

To compile the secondary income statistics of other sectors there are used data of banks' reports on credit and debit accounts covering current transfers of other sectors and volumes of remittances, which are supplemented with expert estimates of funds transferred into the country through informal channels.

3. Capital Account

The capital account in the international accounts shows (a) capital transfers receivable and payable between residents and nonresidents (unpayable change in ownership, fixed assets, transfers for investment purposes, debt forgiveness, etc.) and (b) the acquisition and disposal of nonproduced, nonfinancial assets between residents and nonresidents (nonproduced nonfinancial assets consist of natural resources; contracts, leases, and

licenses; and marketing assets). The ITRS data are the main information source for capital account compilation.

4. Financial Account

4.1. General Provisions

The **financial account** records transactions that involve transfer of the right of ownership to external financial assets and country's claims or incurrence and discharge of financial liabilities that take place between residents and nonresidents.

The financial account includes two classification groups covering transactions with financial assets and financial liabilities. The groups are divided into the following functional categories: direct investment; portfolio investment; financial derivatives; other investment; and reserve assets.

Financial account transactions are valued at market prices.

Direct investment. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. All other transactions between a direct investor and a direct investment enterprise are classified as direct investment (for example, lending). Debt liabilities between separate affiliated financial corporations, including banks, are not classified as direct investment but are included into other investment.

A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. A direct investment enterprise is an entity subject to control or a significant degree of influence by a direct investor. Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise. Control is determined to exist if the direct investor owns more than 50 percent of the voting power in the direct investment enterprise. A significant degree of influence is determined to exist if the direct investor owns from 10 to 50 percent of the voting power in the direct investment enterprise. Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise.

Identifying of direct investment relationship is very important. Therefore, direct investment is divided into three categories: direct investor in direct investment enterprises, direct investment enterprise in direct investor (reverse investment), and direct investment relationship between affiliated enterprises.

In order to distinguish between direct investment and portfolio investment there is used the following criterion. When a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise it is considered to be a direct investment relationship.

Direct investment is reflected by the assets/liabilities principle and is divided into the following items: equity, reinvested earnings, and debt instruments.

Portfolio investment. Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Portfolio investment encompasses shares, bonds, and other securities purchased to gain profits.

For every type of a financial instrument transactions are divided by internal sectors of the economy and maturity (long-term and short-term).

Financial derivatives. Financial derivatives are determined by a financial derivative contract. The financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets. Financial instruments, in which terms and conditions of a contract are reflected, are traded in financial markets and valued at market prices. Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked. Financial derivatives include options (currency, interest, stock, commodity, credit options, etc.), forward-type contracts (including futures), and swaps contracts.

Other investment. Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets. To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes:

- (a) other equity;
- (b) currency and deposits;
- (c) loans (including use of IMF credit and loans from the IMF);
- (d) trade credit and advances;
- (e) other accounts receivable/payable; and
- (f) SDR allocations (SDR holdings are included in reserve assets).

Other investment is recorded according to institutional sectors of a creditor-resident (for assets) and a debtor-resident (for liabilities).

Other equity is the instrument not included in direct or portfolio investment and not in the form of securities (for example, Ukraine's participation in international organizations).

Credit and loans include operations on borrowing and repayment of short-term and long-term credit and loans.

Currency and deposits reflect changes in balances in time deposit accounts, changes in remaining amounts of cash in banks' pay desks and outside the banking system.

In accordance with BPM6, operations on interbank loans are reflected in the *Currency and deposits* item. All balances on interbank operations, except for securities and accounts receivable/payable, are classified as deposits and recorded in the additional item *Interbank positions*.

The *Trade credit and advances* item reflects changes in current and overdue debts on exports (accounts receivable) and imports (accounts payable) of goods and services of economic entities.

Other accounts receivable/payable item includes debts not included in the *Trade credit and advances* item.

Reserve assets include country's external assets controlled by monetary authorities, which any time can be used for direct financing of the balance of payment deficit or for making interventions on the foreign exchange market in order to back the exchange rate of the national currency. Reserve assets include the following items: *Monetary gold, Special drawing rights, Reserve position in the IMF, Currency and deposits, securities, and other claims*.

4.2. Procedure for items compilation

Direct investment. Direct investment statistics in the *Equity* item is formed according to data of quarterly observations of enterprises made by the State Statistic Service of Ukraine and data of the ITRS system (banks' reports data on operations with nonresidents). The is also used additional information of the State Property Fund about receipts from privatization, National bank of Ukraine data on personal licenses for investing abroad.

The *Debt instruments* item is formed on the basis of statistical data on obtainment and servicing of external loans.

Portfolio investment. The *Equity* item is formed according to ITRS data and banks' balance sheets. Liabilities in the item are accounted at a market value whose calculation is based on data of the National Securities and Stock Market Commission (NSSMC).

The *Debt securities* item is formed on the basis of information of the Ministry of Finance of Ukraine data on debts on Eurobonds of the government (EGLBs); the debts are adjusted to the cost of securities redeemed on external markets by residents of Ukraine (repurchase); the data are supplemented with information of the NBU Depository about the cost of internal government loan bonds (IGLBs) purchased in the internal market of Ukraine by nonresidents. There are also used banks' reports data on attraction and servicing of foreign loans that are refinanced at the expense of the issuance of debt securities in international stock markets as well as ITRS data on nonresidents' operations with debt securities of banks and enterprises which are circulated in the internal market.

Other investment. Monitoring of other investment is made with the use of information of the Ministry of Finance of Ukraine and banks' reports about attraction and servicing of

credit and loans obtained from nonresidents; ITRS data ; data of observations of the State Statistics Service of Ukraine on accounts receivable/payable of entrepreneurs; and banks' balance sheets.

Other equity item is formed on the basis of information of the Ministry of Finance of Ukraine data on assets of Ukraine related to its membership in international financial institutions.

Credit and loans item is formed on the basis of data of the Ministry of Finance of Ukraine and National Bank of Ukraine on attraction and servicing of external borrowing by the government and government-guaranteed loans; data of banks' statistical reports on private sector loans; and banks' balance sheets.

Currency and deposits, assets item is formed with the use of official data of banks and enterprises which are supplemented with information of the Bank for International Settlements about deposits of residents of Ukraine with foreign banks and expert estimates of currency outside the banking system.

An increment of cash foreign currency in other sectors is calculated as a difference between the net currency imports by banks of Ukraine and net currency exports by legal entities and natural persons. Volumes of cash for settlements for informal imports are estimated according to expert estimates of informal trade. Volumes of cash foreign currency exported by travelers are calculated as a difference between estimated expenses of tourists and payments made through the banking system. The amount of cash imported by migrants is calculated as a portion of the total sum of remittances that came in Ukraine from migrants through banks and international payment systems.

The *Trade credit and advances* item is formed on the basis of data of the State Statistics Service of Ukraine on accounts receivable/payable of economic entities. Insufficient receipts from exports of goods and services, payments for imports that were not delivered in Ukraine, and volumes of fictitious transactions with securities are reflected in the *Other accounts receivable* item.

All late payments (by principle, arrears of interest, and other payments) are reflected along with respective basic financial instruments: portfolio investment, credit and loans, trade credit and advances (accounts receivable/payable).

Special drawing rights (SDR). SDR allocation made in favor of Ukraine by the IMF is reflected in the balance of payments of Ukraine as other liabilities of the general government. A sector of the economy depends on accounts in which the funds are recorded (accounts of the Ministry of Finance of Ukraine or of the National Bank of Ukraine). At the same time, there is recorded an increase in reserve assets of the country through an increase in SDR holdings.

Reserve assets. Reserve assets include liquid foreign exchange assets of the National Bank of Ukraine with banks-nonresidents, gold reserve of the National Bank, assets with the IMF in the form of reserve position and special drawing rights, which are adjusted to the exchange difference. The reserve assets do not include NBU claims in freely

convertible currency on resident banks and deposits in bank metals (except for gold). NBU information about international reserves and Ukraine's reserve position in the IMF is the source for compilation of reserve assets data.

5. International Investment Position (IIP)

The **International Investment Position** is a statistical report reflecting the value of external financial assets of residents (claims on nonresidents) or gold bullion which belong to reserve assets, and liabilities of residents to nonresidents at the certain moment.

The net international investment position is a difference between external financial assets and liabilities of the country; it reflects net claims or net liabilities of the country with respect to the rest of the world.

The IIP is recorded in US dollars. External assets and liabilities at the end of the reporting period, which are denominated in hryvnias or other currencies, are converted to US dollars according to the official UAH/USD exchange rate that is established by the NBU on the ground of quotation for a foreign currency on the interbank foreign exchange market of Ukraine.

As possible, reserves are estimated at market prices. In the *Equity securities* item, there is made revaluation of separate share packages that were traded in the accounting period.

IIP financial components are classified as follows:

- (a) Claims and liabilities of the country;
- (b) Functional categories (direct investment, portfolio investment, other investment, and reserve assets of the country);
- (c) Institutional sectors (general government, central bank, other deposit-taking corporations, and other sectors);
- (d) By maturity (in case of debt instruments, short-term and long-term).

Sources for the IPP compilation are just like those for compilation of the financial account of the balance of payments.

In the IIP of Ukraine, the *Other accounts receivable* item do not reflect accumulated insufficient receipts from exports of goods and services, payments for imports that were not delivered in Ukraine, and volumes of fictitious transactions with securities, because they are recorded in the respective item of the balance of payments.

The IPP of the country is published in the format of integrated report that reflects changes in the IPP resulted from financial account operations and other changes in financial assets and liabilities during the reporting period. The form of the report is as follows:

| Descriptions | Balance at the beginning of the reporting | Changes at the expense of transactions | Exchange difference, capital revaluation, | Flow over the reporting period (total changes) | Balance at period end |
|--------------|-------------------------------------------|----------------------------------------|-------------------------------------------|------------------------------------------------|-----------------------|
|--------------|-------------------------------------------|----------------------------------------|-------------------------------------------|------------------------------------------------|-----------------------|

| | period | | and other changes | | |
|---------------------------------------|--------|---|-------------------|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Assets | | | | | |
| Liabilities | | | | | |
| Net international investment position | | | | | |

The rows of the table reflect basic financial components of external claims and liabilities of Ukraine which correspond to the financial account items of the balance of payments. The columns 2 and 6 reflect volumes of assets and liabilities at the beginning and at the end of the reporting period; the column 3 shows changes that occurred with position components at the expense of transactions; the column 4 reflect changes in cost estimates of position components under changes in prices, exchange rates, and other factors as well as other adjustment made in the reporting period (unilateral cancellation of debt, investment reclassification, etc.).