**EXTERNAL SECTOR STATISTICS OF UKRAINE:
METHODOLOGY AND DATA SOURSES**

(according to the Sixth Edition of the Balance of Payments and International Investment Position Manual)

In Ukraine, the responsibility for external sector statistics compilation is placed on the National Bank of Ukraine according to the Law of Ukraine "On the National Bank of Ukraine". The Joint Decree of the NBU and the Cabinet of Ministers of Ukraine "On Balance of Payments Compilation" No. 517 of 17 March 2000 coordinate of ministries' and other institutions' activities in data collection.
As of today, the National Bank of Ukraine (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 timelines of external sector statistics compilation correspond to requirements of the Special data Dissemination Standards:

(a) **Balance of payments** is compiled quarterly on the 75th – 80th 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 27th – 31th day after the reporting period.

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) (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 of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets and the liabilities of residents of an 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) Individuals (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 is 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 a single 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

Primary and secondary income data of current account along with capital and financial account items are recorded according to economic sector of the resident that takes part in 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 cross-border financial flows (transactions) and positions, financial instruments are divided by functional categories in accordance with different economic motivations and patterns of behavior.

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: equity and investment fund shares, debt instruments, and other financial assets 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 on demand or with a maturity of one year or less; long-term is defined as having a maturity of more than one year or with no stated maturity.

1.1.4. Accounting Principles

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.

As a result of the two-entry nature of each transaction, the difference between the sum of credit entries and the sum of debit entries is conceptually zero in the national balance of payments. The implementation of the double-entry accounting system results in the fact that the balance of the sum of all credit entries and the sum of all 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 receivable;
(c) Disposals of nonproduced nonfinancial assets.

Debit records include the following:

(a) Imports of goods and services;
(b) Primary and secondary income payable;
(c) Acquisitions of nonproduced 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 - 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*, transactions reflecting changes in official reserve assets, loans borrowed by the government to finance the balance of payments deficit, as well as exceptional financing transactions are separately identified.

1.2. External Sector Statistics Compilation in the National Bank of Ukraine

In the National Bank of Ukraine, the compilation of the external sector statistics is made by the Statistics and Reporting Department.

The balance of payments compilation is based on data of the system of recording of transactions with nonresidents (International Transactions Reporting System, ITRS). The data collection system was introduced in 1993; it is based on banking transactions. According to the system, two categories of respondents provide information: (a) banks that declare transactions with nonresidents, which were conducted during month on behalf of customers and on their own; and (b) enterprises and organizations that opened accounts with foreign banks.

In Ukraine, the closed ITRS is used. In addition to debit and credit transactions, banks provide information concerning balances in correspondent accounts at the beginning and at the end of the reporting period. The information is provided 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 also uses the following data for the external sector statistics compilation:

(a) State Statistics Service of Ukraine data concerning:
- Merchandise trade statistics based on customs statistics;
- Survey data on export-import of services;
- Survey data on foreign direct investment in Ukraine and from Ukraine;

(b) Data of other institutions:
- Ministry of Finance of Ukraine;
- Government organizations;
- Bank of International Settlements;
- Other international financial institutions, etc.

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

The balance of payments data on a monthly basis is less detailed 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 statistics and statistical models for indirect estimation of economic indicators.
The external sector statistics of Ukraine has not included data on international transactions for temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of the temporarily occupied territories in the Donetsk and Luhansk regions since Y2014.

1.3. Data Publication

The balance of payments data are compiled quarterly on the 75th – 80th day after the quarter 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 after the end of an accounting period.

Monthly data are published on the 27th – 31th day after the end of reporting month. After publication of the quarterly balance of payments data, the monthly balance of payments are 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).

Other changes in assets and liabilities account is also published on the official website of the National Bank of Ukraine on quarterly basis.

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 of the balance of payments compilation, the following cases are included in the balance of payments definition of general merchandise in addition to traditional goods of foreign trade:

- 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.

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 to the balance of payments compilation methodology, exports and imports of goods are recorded on a FOB[1] 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 CIF[2] prices. It means that the value includes 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 adjusted for value of transportation and insurance costs.

Services. Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of 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 mode of transport (sea, air, rail, pipeline, motor and other transport) and

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[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.

what is carried (passengers or freight). 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, as well as the acquisition of consumer durable goods (such as cars and electric goods), the value of which exceeds the customs' thresholds..

Manufacturing services on physical inputs owned by others cover processing, assembly, labeling, packing, and so forth that are 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 for compilation of merchandise trade data is information of the State Statistics Service of Ukraine, which is based on 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, humanitarian aid, postal items, nonmonetary gold and other banking metals, exclusion of goods for processing) and for classification (conversion of import prices from CIF to FOB,).

Transactions without change of ownership between resident and nonresident are excluded from the BOP *Exports/imports of goods* item. Volume of goods for processing obtained from customs declarations are excluded from SSSU foreign trade statistics.

The volume of informal trade, which is not included in the official trade statistics, is estimated by the National Bank of Ukraine based on series of expert estimations, which involves comparison of data on import of consumer goods according to customs data and expert assessment of imported consumer goods sold in domestic market. These estimates are based on the data of the State Statistics Service of Ukraine on the volumes of domestic retail trade through all channels, surveys data on ratio of imported goods in retail turnover, trade and transport margins ratio. Assessment of volume of exported goods, which is not included in the official trade statistics, based on the estimates of countries – main trade partners, data of mass media and Internet, etc.

Data on import of goods are also adjusted for volume of humanitarian aid, the State fiscal service data on the volumes of postal items, as well as banks' data on the transactions with bank metals, during which there is no physical movement, but change of economic ownership is occurred. Volume of humanitarian aid is estimated based on the annual data from the Financial tracking Service of the United Nations (FTS).

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, the annual information of the State Statistics Service of Ukraine about the share of insurance and freight in imports of goods according to freight customs is used.

Services. Bank reports on transactions with nonresidents (ITRS) as well as quarterly survey of the State Statistics Service of Ukraine on exports/imports of services are main sources of information about international trade in services. The transactions are coded in accordance with the BPM6 standard classification of services. For estimating of the volumes of certain services, the following calculations are made:

Data of the ITRS system as well as quarterly survey of the State Statistics Service of Ukraine on exports/imports of services are main sources for compilation of the *Transport* item. Data on adjustment of the cost of merchandise imports to f.o.b. prices are used for estimation of the cost of freight transport. Calculations are made for all kinds of transport.

Volumes of services in 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. The sources of information about the number of persons that enter or leave Ukraine are statistical data of Administration of the State Border Service of Ukraine. Average expenses and length of travel estimates based on legislative acts of the Cabinet of Ministers of Ukraine on the amount of compensation for business trips in Ukraine and abroad, statistical surveys (the State Statistics Service of Ukraine), data of the Tourism and resorts Department of the Ministry of Economic Development and Trade of Ukraine, the mass media and Internet. The Travel item also includes expenses of labor migrants employed for a short period of time abroad in their host countries.

Volumes of exports/imports of *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 survey data.

Exports/imports of services of *Insurance and pension services* item are estimated by the National Bank of Ukraine based on ITRS data. Results of estimation are compared with Information of the National Commission for Regulation of Financial Services Market on yearly basis.

Compilation 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 is based on ITRS data on the volumes of compensation of employees, part of the volume of private transfers, expenses of short-term labor migrants in countries of employment and estimates on volume of incoming transfers through informal channels with usage of partners' countries data and results of samples surveys on external labor migration. Mirror statistics data are used for estimation of the volumes of compensation of employees for the main countries-recipients of Ukrainian labor migrants (Poland and Russia).

The investment income data are based on the bank reports on transactions with nonresidents (ITRS) and the data of the Ministry of Finance of Ukraine on servicing Ukraine Government external liabilities, banks' reports on private loans from nonresidents.

Calculation of the volumes of reinvested income of banks is based on the net income from banks operating activities with FDI according to the participation in capital share of foreign direct investor.

Secondary income. ITRS data (on government accounts) and data on volumes of technical assistance given to the government of Ukraine (data of the Ministry of Economic Development and Trade of Ukraine) are used for the compilation of government sector's secondary income statistics. The Ministry of Economic Development and Trade of Ukraine, at the beginning of the year, provides the National Bank of Ukraine with projections for the volume of international technical assistance by countries and organizations in dollar terms for the quarters. Data is adjusted according to the actual implementation during the year and then it is included to the final calculations of the balance of payments.

Estimation of other sectors secondary income includes data on private remittances of long-term labor migrants, calculated on separate methodology and other private transfers from non-resident to resident.

Estimation of private remittances of long-term labor migrants includes remittances through informal channels. Mirror statistics data are used for estimation of remittances for the main countries-recipients of Ukrainian labor migrants (Poland and Russia). The amounts of private remittances abroad are defined according to the banks reporting.

Other current transfers include social benefits, net insurance premiums and insurance compensation, labor migrants taxes paid in their country of employment, humanitarian aid and other current transfers.

Social benefits are determined according to the banks reporting and include pensions, scholarships, unemployment benefits, child maintenance payments, etc.

Net insurance premiums and insurance compensation are calculated according to the "Estimation of insurance services export-import volumes" methodology based on banks reporting.

Taxes of migrant workers paid by them in the country of employment are calculated in accordance with the "Methodology of assessing of the private transfers volumes".

Other current transfers (other) are included gifts, inheritance, charitable, membership fees, grants, taxes, duties, fines, etc. and are calculated according to the data of banks reporting.

The amounts of humanitarian aid are defined according to the data of UN Office for the Coordination of Humanitarian Affairs (OCHA)'s Financial Tracking Service (FTS) web site and is evenly divided by quarters (months).

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; those contracts, leases, and licenses that are recognized as economic assets; and marketing assets). The ITRS data are the main source for capital account compilation.

4. Financial Account

4.1. General Provisions

The **financial account** records transactions that involve financial assets and liabilities and that take place between residents and nonresidents.

The financial account includes: direct investment; portfolio investment; financial derivatives; other investment; and reserve assets.

The 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. Reinvested earnings do not include realized and unrealized holding gains/losses and provision for reserves.

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 deposit accounts, changes in amounts of foreign cash in banks and outside the banking system.

In accordance with BPM6, interbank loans are reflected in the *Currency and deposits* item. All balances on interbank transactions, 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 accounts receivable and accounts payable related to trade in goods and services of economic entities.

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. Compilation of Items

Direct investment. Direct investment statistics in the *Equity* item based on data of quarterly survey of enterprises made by the State Statistic Service of Ukraine, ITRS system, banks` balance sheets data and information about ownership structure of Ukrainian banks. Information of the State Property Fund on receipts from privatization are also used.

Estimation of debt instruments based on the reports on disbursements and servicing of loans received from nonresidents. Information is supplemented by SSSU data on volumes of receivables and payables between direct investment enterprise and direct investor.

Portfolio investment. The *Equity* item is calculated based on ITRS data and banks' balance sheets. Liabilities on this item are recorded at market value which is defined by data from National Securities and Stock Market Commission (NSSMC).

Compilation of *Debt securities* item is based on Ministry of Finance of Ukraine (MFU) information on government Eurobonds, which are adjusted on the value of securities that were bought back by residents of Ukraine in international markets (re-purchase). It is supplemented with Depositary of the National Bank data on the value of domestic government bonds purchased by non-residents in the domestic market of Ukraine. ITRS and NSSMC data are used in reference to transactions in debt securities of banks and enterprises that are traded in domestic market

Other investment. Compilation of other investment items based on information of the Ministry of Finance of Ukraine and banks' reports on private loans from non-residents; banks' balance sheets, ITRS data; State Statistics Service of Ukraine survey of enterprises on accounts receivable/payable.

Other equity item based on 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 calculated on the basis of data of the Ministry of Finance of Ukraine and National Bank of Ukraine on disbursement and servicing of external government and government-guaranteed loans; banks' reports on private loans from non-residents (loan-by-loan reporting); and banks' balance sheets.

Currency and deposits, assets item is compiled 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 in foreign banks and expert estimates of cash holdings outside the banking system.
Net change of foreign cash holdings in other sectors is calculated as difference between volume of net imports of cash by banks on Ukraine's territory and net export-import of cash by economic entities and individuals. Outgoing flows of cash for informal imports financing calculation are based on expert assessment of informal trade. Net exports/import of foreign exchange cash by travelers is defined as difference between estimated volumes of tourists' expenditures and payments made through banking system. Cash amount that was imported by migrant workers is calculated as portion of remittances transferred through banks and international payment systems.

The *Trade credit and advances* item based on State Statistics Service of Ukraine survey of economic entities on accounts receivable/payable. Estimation of non-repatriated export earnings, payments for non-supplied imports and payments against fictitious transactions with equity securities are reflected in other receivables item.

All overdue payments (principal, interest arrears and other payments) are reflected with the original financial instrument.

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, the growth of reserve assets of the country is recorded by increasing the volume of SDR holdings.

Reserve assets. International reserve assets include monetary gold, special drawing rights (SDR), reserve position of Ukraine with IMF, and foreign exchange assets of the National Bank of Ukraine, which are adjusted by the exchange rate difference. The reserve assets do not include NBU claims on resident banks in foreign currencies and deposits in bank metals (except for gold). NBU information about international reserves is used for compilation of reserve assets data.

5. International Investment Position (IIP)

The **International Investment Position** is a statistical statement that shows at a point in time the value and composition of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets, and the liabilities of residents of an economy to nonresidents.

The difference between an economy`s external assets and liabilities is the economy`s net IIP, which may be positive or negative; it reflects net claims or net liabilities of the country with respect to the rest of the world.

IIP data is denominated in USD millions. External financial assets and liabilities at the end of the accounting period, nominated in hryvnia and other foreign currencies, are recalculated into USD according to the official exchange rate of hryvnia versus USD, which is set by the National Bank of Ukraine on the basis of the rate quotations in the inter-bank foreign exchange market of Ukraine. The valuation of external financial assets and liabilities stocks, as far as it`s possible, is made at market prices. As for the equity securities, revaluations made for the share holdings, which were traded during the reported period.

Basic components of the IIP are grouped according to:

(a) assets and liabilities of the country;
(b) functional categories: direct investment, portfolio investment, financial derivatives and other investment as well as data on reserve assets of the country;
(c) institutional sectors: general government, central bank, deposit-taking corporations, except the central bank and other sectors;
(d) maturity (in case of debt instruments): short-term and long-term.

Data sources for IIP compilation are the same as for balance of payments` financial account compilation.

IIP of Ukraine does not cover cumulative stocks of insufficient receipts from exports of goods and services, payments for imports that were not delivered and payments on fictitious securities transactions, with flows thereof recorded in the respective balance of payments item.

IIP data are published as an integrated statement that shows stocks of external financial assets and liabilities of Ukraine at the beginning and at the end of the period. It also contains flows as a result of balance of payments transactions and other changes in financial assets and liabilities during the period:

	Positions as of the beginning of period IIP	Tran-sactions	Valuation changes, other adjustments	Exchange rate changes	Other price changes	Other changes	Total changes	Positions as of the end of period IIP
1	2	3	4=5+6+7	5	6	7	8=9-2	9
Assets								
Liabilities								
Net IIP								

The rows of the table are reflected basic financial components of external assets and liabilities of Ukraine, which are corresponded with the balance of payments` financial account structure. The columns 2 and 9 are reflected volumes of assets and liabilities at the beginning and at the end of the reporting period. The column 3 – the result from financial account transactions; the column 4 reflects changes due to exchange rates changes (column 5), changes in prices (column 6), and other factors (column 7) as well as other adjustments made in the reporting period (cancellations and write-offs, investment reclassification, etc.).

6. Other Changes in Financial Assets and Liabilities Account

Together with the IIP statement, the **Other Changes in Financial Assets and Liabilities Account** is also published. The Other changes in financial assets and liabilities account – a statement that shows changes in financial positions that arise for reasons other than transactions between residents and nonresidents. These changes are also called “other flows” that reconciles the balance of payments and IIP for a specific period.

The Other changes in financial assets and liabilities account covers revaluation due to exchange rate changes (column 3 in the table) and other price changes (column 4), changes in volume, other than balance of payments transactions (column 5).

	Valuation changes, other adjustments	Exchange rate changes	Other price changes	Other changes
1	2=3+4+5	3	4	5
Assets				
Liabilities				
Net IIP				

Revaluation occur because of a change in the monetary value of a financial assets or liability due to changes in the level and structure of its price. Because of importance of instruments denominated in foreign currencies in the IIP and their different behavior, the values of revaluation are separated into those due to two factors: (a) exchange rate changes and (b) other price changes.

Other changes in the volume of financial assets and liabilities are any changes in the value of these assets that are due neither to transactions nor to revaluation. These changes include those due to cancellation and write-offs, economic appearance and disappearance of assets, reclassification, and the changes in financial assets arising from entities changing their economy of residence.