

## Methodological sheet

### BALANCE OF PAYMENTS

#### I. Methodological source documents

**Balance of Payments and International Investment Position Manual**, sixth edition, International Monetary Fund, Washington, D.C. 2009, (the “Manual”, “BPM6”);

**International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template**, International Monetary Fund, Washington, D.C., 2012;

**OECD Benchmark Definition of Foreign Direct Investment**, fourth edition, Organisation for Economic Co-operation and Development, 2008;

**Manual on Statistics of International Trade in Services**, United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development, Statistical Office of the European Union, United Nations Conference on Trade and Development, World Tourism Organization, World Trade Organization, 2010 (“MSITS 2010”);

System of National Accounts, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, World Bank, 2008, (2008SNA)

#### II. Definition and content

**The balance of payments** is a statistical statement that summarises economic transactions between residents and non-residents for a certain period of time and for a specific economy. The basic structure of the balance of payments includes the current, capital and financial accounts, of which foreign reserve assets are a part.

**The current account** records flows of goods (export and import) and services (exports and imports of transport services, travel and other commercial and non-commercial services), primary income (interest, dividends, reinvested earnings, wages and salaries, taxes and subsidies on production and on imports) and secondary income— when resources are provided by one party without anything being supplied to that party in return (taxes, social benefits, transfers between households).

**The capital account** consists of transfers of non-produced nonfinancial assets (such as land sold to embassies) and redistribution of capital purposes (for example inter-governmental debt forgiveness, investment grants and so on).

Transactions vis-à-vis the EU budget and EU subsidies have become a significant part of the current and capital accounts since the accession of the Czech Republic to the European Union.

**The financial account** shows net acquisition and disposal of financial assets and liabilities broken down into direct investment, portfolio investment, financial derivatives, other investment and reserve assets. Other investment is broken down into other equity, currency and deposits, loans, insurance, pension and standardised guarantee schemes, trade credit and advances, other accounts receivable or payable and special drawing rights. The following breakdown of all the items of the financial account is according to a sector breakdown (central bank, deposit-taking corporations except the central bank, general government and other sectors) and a time breakdown (short-term or long-term maturity).

The difference between the current and capital accounts and the financial account is balanced by net errors and omissions, which represents statistically unidentifiable flows in the balance of payments.

#### III. Principles of compilation of the balance of payments

- Recording of only those transactions which take place between residents and non-residents; the economic interest of the participants in the transaction is decisive for the determination of residence

- Recording of flows on an accrual basis, i.e. at the time at which economic value is created, transformed, exchanged, transferred, or extinguished, in the case of receivables and liabilities on a change of ownership
- Valuation of transactions at market prices (if market prices are not available, accounting values may be used)
- Recording of economic transactions – on the one hand transactions connected with the transfer of funds, and on the other hand transactions, the implementation of which is not connected with a payment (transfers)
- Changes which do not represent transactions (for example influences of exchange rate fluctuations, price fluctuations and so on) are not recorded in the balance of payments
- In the balance of payments transactions are recorded on the movement principle in the case of the current and capital accounts (as exports and imports or, as the case may be, as income and expenses)
- All items of the financial account are compiled as transactions in assets and liabilities without foreign exchange and price influences and other non-transaction changes in stocks and furthermore they are compiled as net acquisition of assets and net incurrence of liabilities, so that a positive change indicates an increase in assets or liabilities and a negative change indicates a decrease in liabilities

#### **IV. Sources and reporting entities**

##### a) Statistical statements and surveys:

- Foreign trade statistics – national concept, provided by the CZSO
- Statistical survey of the CZSO on external trade in services
- Monthly statement of selected foreign exchange and CZK collections and payments
- Monthly statement of the foreign exchange and CZK positions of the CNB and commercial banks
- Data obtained from the analytical database of the Ministry of Finance of the Czech Republic
- Monthly and quarterly statement of foreign assets and liabilities of non-bank entities
- Quarterly statement of the purchase, sale and ownership of domestic securities by non-residents
- Statistical survey in the area of direct investment (annual)

##### b) Administrative data sources:

- Supplementary information from commercial banks and various units of the CNB
- Information (both regular and on request) from the Czech Statistical Office, the Ministry of Employment and Social Security of the Czech Republic, the Ministry of Finance of the Czech Republic, the Prague Stock Exchange, the Prague Central Securities Depository, the Cadastral Office and other entities

##### c) Information from the media

##### d) The CNB's own calculations

#### **V. Description of the time series**

- The Balance of Payments of the Czech Republic has been compiled since 1993
- Quarterly BoP data are available for 1993–2007
- Monthly data have been prepared since January 2008
- The quarterly BoP is published in CZK, EUR and USD; the average exchange rate for the relevant time period is used for conversion from national to other currencies
- The data for 1993 to 2003 are derived from BoP data originally compiled in accordance with the previous version of the Manual using a technical bridge prepared by the IMF
- Since 2004, the data have been compiled directly from the available sources in accordance with BPM6 methodology

#### **VI. Methodological breakdowns**

- Since the Czech Republic's accession to the European Union, trade balance data have been reported according to CZSO national statistics on foreign trade for the purposes of balance of payments statistics and national accounts statistics of the CZSO. In addition, data on exports and imports incorporate transactions which are not covered by foreign trade statistics. They include:
  - a) imports of goods directly purchased abroad by domestic entities (at ports, airports etc.)
  - b) imports of goods of low (sub-limit) value through parcel services (Czech Post)
  - c) estimates of the effect of the grey economy on goods exports and imports (smuggling)
- Since 1998, reinvestment of earnings connected with domestic investment abroad and foreign investment in the Czech Republic has been recorded in the current account (under primary income), with a corresponding per contra item in the financial account (under direct investment)
- Since 2000, financial derivatives have been recorded in the balance of payments
- Since March 2001, credit relations (loans, supplier credits) between investors and their ownership interests have been included under direct investment rather than other investment (direct investment – debt instruments)

**The main changes introduced in BPM6:**

- The sector classification is amended to be consistent with the SNA
- Elaboration of direct investment (consistent with the OECD Benchmark Definition of Foreign Direct Investment), notably recasting in terms of control and influence, treatment of chains of investment and fellow enterprises, and presentation on a gross asset and liability basis as well as according to the directional principle)
- Goods for processing are classified as manufacturing services on physical inputs owned by others (reclassification from goods to services)
- Merchanting of goods is classified under goods
- Goods procured in ports by carriers are included under general merchandise rather than as a separate item under goods
- FISIM (Financial Intermediaries Services Implicitly Measured) and other implicit financial services have been included in services
- The terms primary and secondary income have been introduced due to consistency with SNA (instead of incomes and current transfers)
- Taxes and subsidies on products and production are classed as primary income, not secondary income (current transfers)
- A new concept has been introduced for the measurement of international remittances
- Personal effects, financial assets, and liabilities of persons changing residence (migrants' transfers) are no longer covered by capital transfers (reclassified as other changes)
- A detailed list of changes compared to BPM5 is provided in Appendix 8 of the Manual
- The relationship between BPM6 and 2008SNA is provided by links in individual chapters and by appendix 7 of BPM6

**VII. Times of publication**

- The monthly balance of payments is published in preliminary form within the deadlines specified by the ECB (roughly 35 working days following the end of the reporting period)
- The quarterly balance of payments is published in accordance with the CNB publication schedule (roughly 65–75 days following the end of the reporting period), coordinated with the CZSO schedule for the publication of foreign trade data and GDP statistics
- Revisions to the balance of payments are governed by the revision policy principles stipulated by Eurostat for balance of payments statistics
- The final version is linked up with the publication of the definitive data on the balance of trade by the CZSO and data obtained from the annual statistical survey in the area of direct investment