Changes in the BoP and IIP methodology due to transition to BPM6

The balance of payments (BoP) and the international investment position (IIP) of the Republic of Serbia for 2012, 2013 and January-April 2014 have been adjusted in order to ensure alignment of Serbia's BoP and IIP statistics with the changes in the official methodological concept of the IMF and the EU arising from the transition to BPM6. The application of BPM6 is mandatory for EU member states, and is also expected from countries in the process of EU accession, based on the regulations of the European Commission governing the BoP and IIP statistics[1].

Switching to BPM6 ensures comparability of the Republic of Serbia's balance of payments with other related statistics, notably the System of National Accounts (SNA) which is upgrading to a new methodology (ESA 2010) in 2014, but also better international comparability, chiefly with the statistics of EU member states. The new methodology places greater emphasis on the link between financial account transactions and the IIP. The sign convention of the financial account has been changed accordingly.

Under BPM6, both credit and debit entries in the current and capital accounts are shown with an implied positive sign and the net balance of the current account is the difference between credit and debit entries. According to previous methodology, debit entries were shown with a minus sign and the net balance was the sum of credit and debit entries. Within the financial account, an increase in assets and liabilities under BPM6 is shown with an implied positive sign (conversely, a decrease is denoted by a negative sign) and the net balance of the financial account is the difference between assets and liabilities. A positive balance of the total financial account, as well as positive net values of financial account items, mean an increase in our claims on non-residents and/or a decrease in our liabilities to non-residents, i.e. capital outflow from Serbia, while a negative balance of the financial account is indicative of changes towards a reduction in our claims on non-residents and/or an increase in our liabilities to non-residents, i.e. capital inflow to Serbia.

The balance of payments presentation has also been changed. In the new presentation, FISIM is excluded from the income account and is shown under financial services. The income from NBS FX reserves has been singled out as a separate item within the primary income (income under earlier methodology). Within secondary income (current transfers under earlier methodology), all personal transfers of natural persons are shown as a single item. "Financial derivatives" and "Insurance, pension and standardised guarantee schemes" are shown as separate items in the financial account. The balance of payments items are now fully harmonised with the SNA and IIP nomenclatures.

Parallel with the application of the new methodology, data coverage has also been improved which, among other things, has enabled recognition of total profit in the primary income account.

The effects of improved coverage and the application of BPM6 methodology are reflected in:

1. **The increase in the current account deficit** by EUR 463 mln, EUR 506 mln and EUR 204 mln in 2012, 2013 and January-April 2014, respectively. The main causes of the increase are as follows:

- the increase in the primary income deficit as a result of disclosure of total profit by including reinvested earnings in the amount of EUR 309 mln, EUR 332 mln and EUR 115 mln in 2012, 2013 and January-April 2014, respectively. This methodological change is neutral from the aspect of the overall balance of payments as it boosts direct investments on the financial account by the same amount; and
- the increase in the trade deficit by EUR 153 mln, EUR 174 mln and EUR 88 mln in 2012, 2013 and January-April 2014, respectively. According to BPM6, exports and imports of goods for processing will no longer be recorded under item exports and imports of goods, and the cash payments and collections of processing services will be recorded under item exports and imports of services. This change stems from the application of the principle of change of economic ownership of goods between residents and non-residents, rather than the principle of cross-border flows of goods and services applied earlier. Besides, the incompleteness of statistical information on the value of the domestic content in products owned by a non-resident, and/or value of the foreign content in products owned by a Serbian resident, has led to the difference in records on exports and imports under

[1] EU Commission Regulation No 555/2012

previous in relation to the new methodology. Namely, under the new methodology, data on exports and imports of goods were revised down by these amounts. In the coming period, the NBS will seek to make use of existing administrative and other sources of information in order to ensure the availability of these data and their maximum alignment with methodological requirements.

2. The increase in the financial account balance by EUR 467 mln, EUR 524 mln and 194 mln in 2012, 2013 and January-April 2014, respectively, because of a higher amount of FDI stemming primarily from the inclusion of reinvested earnings and improved data coverage amid transition to direct reporting. To be more precise, improved coverage of intercompany loans and their reclassification from other investments to direct investments led to the upward revision of FDI and other investments.

3. The separation of banks from other financial institutions in the sectoral structure of IIP statistics of the Republic of Serbia.