IFC Satellite meeting at the ISI World Statistics Congress on "Assessing international capital flows after the crisis"

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Views from the ground: remarks on the BPM6 adoption[1]

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[1] This paper was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

Views from the ground: Remarks on BPM6 adoption

Ever since the publication of the fifth edition of the *Balance of Payments and International Investment Position Manual* (BPM5) in 1993, several important developments associated with globalization, financial, and technological innovation have occurred in the world´s economy. Accordingly, these have led to the necessity of improvements on the methodological framework used for the compilation of Balance of Payments (BOP) data.

In order to tackle these demands, the IMF released the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6) in 2009, setting up a strategy for its worldwide implementation in the following years. Moreover, the BPM6 has been revised and updated in parallel with the *2008 United Nations System of National Accounts* (SNA08), enhancing the consistency between International and National Accounts.

When accessing the external vulnerability of a given country, BPM6 is a better analytic tool than previous methodologies. Not only it incorporates all recent economic developments to propose new concepts for external accounts, but it also enhances the *International Investment Position* (IIP) by emphasizing the integrated analysis of stocks and flows for the external sustainability´s evaluation[1].

Parallel to the methodological issues, a key aspect of BPM6 implementation is the communication of its improvements to the general public. The IMF is aware of that, and has proposed a strategy for communicating the BPM6 migration on its 2013 paper "*Best Practices for Communicating the BPM6 Migration*" (BOPCOM-13/07) – a guideline to be undertaken by national compilers to enable their users to anticipate and understand the modifications made on the external sector data (BOP and IIP).

It´s important to realize, however, that this general strategy must be adapted for each country, given its own challenges and necessities. For instance, the new IMF statistical framework is not readily met by country-level data surveys, potentially leading to data gaps or significant revisions of previously compiled data. Needless to say, these pose significant challenges both for compilers and users, increase noise and make the understanding of BPM6 much more difficult.

Above all, data users should be alerted to any major methodological changes as early as possible, giving them time to prepare themselves for the new accountability methods. Moreover, national compilers should try to think as data users, asking about the main challenges when dealing with the new data and setting a strategy to overcome them.

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[1] In the words of the Central Bank of Brazil, "*By promoting an integrated view of international transactions on the composition and magnitude of assets and liabilities according to functional investment categories (direct investment, portfolio investment, and other investment), type of instrument and maturity, external sector statistics produced under the updated methodology will provide users with enhanced analytical content*"

In general, a desirable communication strategy would be threefold. Some measures should be taken before the release of BPM6-basis data. Above all, a comprehensive communications plan is needed, listing not only goals, actions, and a timetable for migration, but also setting up the coordination among country´s data compilers (if applicable[2]). Specifically, users should be aware of the historical time period that will be revised, with any breaks in the time series due to the introduction of the new methodology being highlighted.

Knowledge dissemination should be done by articles and papers, summarizing the key methodological and presentational changes, highlighting those with substantial impact on data. Selected user´s feedback could also improve knowledge dissemination, allowing the preparation of a set of Frequently Asked Question (FAQ) that would assist all users in their understanding of the new methodology. At last, a communication channel with the data compiler should be readily available for every data user.

Furthermore, there are measures that need to be taken simultaneously to BPM6 migration. A new press release, consolidating previous information, should be issued, also providing any further insights. In the case that full historical series are not revised, compilers should explain the reasons for not doing so, identifying the main data breaks.

Meanwhile, a new set of BOP and IIP metadata should be issued, providing information on new concepts, data sources and estimation methods. Also, user´s understanding of the methodological changes from BPM5 to BPM6 would be enhanced by additional explanations through comment boxes and footnotes on regular official communication instruments (such as Quarterly Inflation Reports), keeping them aware of the ongoing modifications.

At last, some measures have to be implemented after the first release of BPM6 data. Most likely, the majority of data users will understand the methodological changes long after the first batch of available data. Therefore, continuous support to data users is needed, updating the set of FAQ´s after public consultations, setting up methodology seminars, and disseminating articles and papers which explain BPM6´s impacts on key aggregates.

On that front, it is important to realize that most data users do not learn from scratch, but by comparison of methodologies. On that sense, introducing a longer back-run of historical data is a central piece of communication. Ideally, that should be available with the first release of the new data; if not possible, an official translator (from BPM6 to BPM5) would enhance communication, reducing the noise intrinsic to any methodology revamp[3].

It is also important to consider country-specific characteristics when designing the communication strategy, as the impact of BPM6 migration tends to vary among economies. On that matter, the international experience, usually from the compiler´s perspective, could be an important input. The potential challenges are numerous; the adoption of BPM6 can lead to

[2] BPM6 and SNA08 adoption should be seen as complementary steps on enhancing national statistics standards, by allying them with best international practices. It´s important to realize that every country has a specific compiler´s structure, and not always the same agency deals with national and international accounts. If that happens, coordination efforts are essential to minimize noise and improve the effectiveness of the methodological revamp.

[3] "*It would likely cause data users some problems if, for example, data referring to earlier years are available only on a BPM5 basis and data referring to later years are available only on a BPM6 basis, suggesting that production of an historical time series for BPM6 basis data should be carefully considered*". Strategy for Implementing the Sixth Edition of the Balance of Payments and International Investment Position Manual, IMF BOPCOM-09/08.

significant revisions on previous data and requires changes on entrenched analytical practices, increasing user´s resistance to the new methodology.

In the one hand, modifications may occur within the balance of payments, keeping the general aggregates. That has happened especially in economies with a significant share of trade in services, which have undergone major changes under BPM6 to reflect the growing importance and contribution of cross-border services transactions to global trade[4], and in economies which saw major reclassifications within the financial account – with Singapore being a good example of both[5]. On that case, communication challenges tend to be smaller, with changes due to reshuffle of existing accounts.

In the other hand, there are economies, such as Chile[6] and Brazil[7], on which the adoption of BPM6 increased the number of categories to be measured, leading to considerable revisions in both the current account and its financing sources. If that happens, communication challenges tend to be considerably bigger. Not only the history has to be re-written, what increases noise by itself, but there are usually data gaps, due to statistical survey restrictions, which demand significant efforts by the compilers and jeopardize the new methodology dissemination. Finally, communication challenges can also derive from more prosaic reasons; in Russia, for example, the new sign convention of the BPM6 led to unexpected problems with data users[8].

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[4] In particular, the main changes include the introduction of maintenance and repairs as a major services category, the inclusion of FISIM in financial services and the reclassification of *merchanting* from the services account to the goods account.

[5] In Singapore, the adoption of BPM6-basis data (2012) led to upward revision on its goods account (mainly due to the inclusion of goods under *merchanting*) and downward revision on its service accounts (with the removal of *merchanting* partially offset by the movements of maintenance, repairs and processing fees), summing up to minor current account adjustments. Meanwhile, its financial account incorporated financial derivatives, leading to a significant reshuffle within its functional categories; besides 2009, when a 40% downward revision was due to higher net outflows on portfolio and financial derivatives, all other adjustments were minor. For further information, refer to "Implementation of IMF Balance of Payments and International Investment Position Manual. Sixth Edition in Singapore´s Balance of Payments", Singapore Department of Statistics (February 2012).

[6] The current account changed mainly due to adjustments in exports and services, mostly associated with abrupt copper price corrections in the 2008-2009 biennium. The biggest revision was in 2008, when the current account deficit changed from 1,9% of GDP (BPM5) to 3,2% of GDP (BPM6). On the financial account, revisions were due to incorporation of commodity-linked financial derivatives and adjustments in trade credits, aligned with the aforementioned revisions to exports; the biggest effects also happened in 2008. For further information, refer to "Implementing the IMF Balance of Payments and International Investment Position Manual, sixth edition, in Chile's external statistics", Banco Central de Chile, Estudios Económicos Estadísticos n.89 (March 2012).

[7] In Brazil, The adoption of the new standards was not just a matter of sign conventions or new definitions; under BPM6, the Brazilian balance of payments incorporates more transactions, changing both the current account and its financing sources. On the negative side, the current account deficit has increased. Full BPM6-standard data led to minor revisions of last year´s current account deficit from 4,2% of GDP (BPM5) to 4,4% of GDP (BPM6); however, preliminary data from previous years show a more sanguine scenario – for instance, 2010´s current account deficit widened from 2,2% of GDP (BPM5) to 3,5% of GDP (BPM6). On the positive side, financing sources have been revised upwards, especially direct investments and debt securities traded in the domestic market. On that stance, the external financing pattern improved under BPM6 - in 2014, foreign direct investments now cover 93% of the current account deficit, compared to 68% under BPM5. For further information, refer to "External Sector Statistics, Methodological notes nr.2 – Current Account", Central Bank of Brazil (April 2015) and "External Sector Statistics, Methodological notes nr.2 – Direct investment and primary income (earnings)", Central Bank of Brazil (April 2015.

[8]. "*Quite unexpectedly, a BPM6–recommended change of the sign convention turned out to be problematic. Over the years Russian macroeconomic policy-makers, government economists and analysts got used to the BPM5 signs, and so the transition to BPM6 sign convention was met with confusion, particularly within the financial account. As a temporary solution to this rather psychological than technical problem, in addition to the new BPM6 presentation, it has been decided to also maintain the previous BPM5 presentation with "+" for credits and "-" for debits. For that*

Communication jitters could also arise only due to unfortunate timing. Apparently that was the case of Australia, which implemented both SNA08 and BPM6 data in September 2009. Even with a multi-year communication plan, well designed coordination efforts among official agencies and virtually no impact on external sector aggregates, user´s reactions to the new data were intense. According to the Australian Bureau of Statistics[9], it was mainly a question of timing; users were more concerned with interpreting new data in the context of the Global Financial Crisis than with issues related to the new standards. On that sense, exogenous factors should be considered when communicating the BPM6 migration.

As a final note, it is important to stress that the biggest noise, in the user´s perspective, usually does not come from the adoption of a new methodology itself, but rather from data gaps and uncertainty when merging the old and the new metrics. On that sense, longer overlap periods and an agenda of training seminars would boost analysis and help disseminate knowledge by comparisons between BPM5 and BPM6 data. Furthermore, providing updated micro data (with metadata) would disseminate information, allowing each user to manipulate data as it pleases. Finally, data compilers should increase the interaction with data users; with a better understanding of the relevant questions, communication practices would be highly improved.

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reason, a special footnote has been added to each published BOP data table with an explanation of the mathematical signs' use". Strategy for Communicating to Users the Introduction of BPM6, IMF BOPCOM-12/08.

[9] *"The difficulties users were experiencing were reduced to some extent by the communication program the ABS had put in place, to inform users in well advance about the nature of the changes, the likely impacts and the detailed changes to published tables, spreadsheets and other products. Even so this communication program did not reach all users and some were surprised. Others were aware that changes would occur, but the impacts on their work were not apparent until data were released".* Implementation of 2008 SNA and BPM6 in Australian Statistics, IMF BOPCOM-12/09.

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Views from the ground
Remarks on BPM6 adoption

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Rio de Janeiro – July 24th, 2015

- A key aspect of BPM6 implementation is to communicate its improvements to the general public.

- The IMF has proposed a strategy to do so in 2013.

  - *Best Practices for Communicating the BPM6 Migration* – BOPCOM-13/07.

- Despite being an useful guideline, this strategy must be adapted for each country, given its own challenges and necessities.

  - **This adaptation demands compilers´ understanding of the user´s needs**.

- In the user´s perspective, which are the biggest fears?

  1. Data gaps;
  2. Significant revisions of previously compiled data;
  3. Small time spans on the new methodology;
  4. Loosing forecast models and the ability to "tell a history".

- Above all, data users should be alerted to any major changes as early as possible.

- On that sense, the "ideal" communication strategy is threefold.

Before BPM6-basis data release

1. Setting up a comprehensive communications plan, with:

   • Explicit goals and actions to be undertaken;
   • A timetable for data migration;
   • Coordination among country´s data compilers (if applicable).

2. Explaining the historical time span to be revised, highlighting possible data breaks;

3. Knowledge dissemination (articles, papers, press releases, FAQ and a public open channel with the data compiler).

Simultaneously to the first data release

1. New press release, consolidating previous information and providing further insights;

2. Identifying data breaks, in the case that full historical series are not revised;

3. Updated set of metadata;

4. Boxes, articles and footnotes on regular official communications not directly related to the external sector (such as Inflation Reports)

After the first data release

1. Continuous support to data users:

   - FAQ updates after public consultations;
   - Methodology seminars (as this one);
   - Series of articles and papers explaining BPM6´s impacts on key aggregates.

2. Introducing a longer back-run of historical data;

3. If not possible, an official translator (from BPM6 to BPM5) would decrease noise and boost the methodology dissemination;

- Country-specific characteristics have to be considered

  - Data revisions could require changes on entrenched analytical practices, increasing the resistance to the new methodology;

  - When the history is re-written, challenges tend to be substantial;

  - Sometimes the timing is unfortunate; compilers should be prepared to deal with it.

Closing remarks

1. In the user´s perspective, problems usually come from data gaps and uncertainty when merging the old and the new data

   - Long overlap periods boost comparisons between BPM5 and BPM6;
   - Micro-data would allow each user to manipulate data as (s)he pleases.

2. Data compilers should force themselves to think as data users

Remember: The best methodology, if applicable to a small time span, is not the best analytical tool.