

Methodological note on the new method of drawing up the balance of payments

In January 2006 the Bank switched to a new system of collecting the data needed to draw up the balance of payments. This totally revamped collection system also required adjustments to the technical method of producing the balance of payments.

To avoid an abrupt transition it was decided to allow the old and new collection systems to continue running largely in parallel in 2006. This provided the opportunity to fine-tune the new system and already make adjustments to certain aspects.

During this transitional period, it was decided to give preference to the data from the earlier system in order to produce the 2006 figures. This had the disadvantage of reducing the certainty over some components of the balance of payments, because certain data sources no longer existed so that estimates had to be made. Conversely, that was outweighed by the advantage of avoiding a significant methodological break: 2006 was the year in which the new collection system and the method of drawing up the balance of payments were optimised so that the methodological break, though unavoidable, should be kept to a minimum on transition to production based on the new systems.

1. The old and new system

Since January 2007 the published balance of payments data have been based on the totally new collection and production system.

In principle, the old system, which therefore generated the data up to 2006, was exhaustive:

- Financial institutions had to submit daily reports on all foreign payments, both incoming and outgoing, for their own account and for their customers, stating the reason for the payment. Although there was a threshold of EUR 12,500, amounts below the threshold were estimated on the basis of data from the periods preceding the introduction of the threshold.
- This system was supplemented by the "Direct Reporters": firms effecting transactions for which the payment was not handled by Belgian financial institutions were deemed to submit monthly declarations themselves to the Bank, without any threshold.

In contrast, the new system conforms to the administrative simplification requirement expressed by the government. It makes maximum use of existing sources and aims to limit the overall burden of reporting for financial institutions and other enterprises. In practice, this means that:

- Financial institutions report only transactions for their own account.
- Specific surveys using scientifically based sampling methods are to supplement all components of the balance of payments. However, for some items the population is exhaustive.

This new collection system is based on a combination of monthly, quarterly and annual surveys, depending on the importance of the firms in terms of their dealings with other countries.

Obviously, estimates are a key element of this new system.

2. Methodological breaks

A change in the data collection inevitably entails methodological breaks in some series, more specifically in those where the new collection system differs most from the previous one. In fact, that applies to the majority of items.

The items without any methodological breaks are:

- Trade in goods (foreign trade statistics).
- Income from portfolio and direct investments (estimates based on the international investment position).
- The Bank's reserves (accounting of the Bank).

All other items may be subject to methodological breaks.

Clearly, these breaks may have no economic significance. In fact, it is inappropriate to compare 2007 with 2006. Comparison is perfectly possible within the 2002–2006 series; 2007 will also permit comparison with 2008 and so on, but for the time being we assume that the 2006/2007 changes are essentially methodological.

That is also why Belgostat and the Statistical Bulletin contain a series of tables ending in 2006, while a new series begins in 2007. Although the content of the tables is unchanged, the discontinuity aims only to focus attention on the fact that the collection system and estimates have undergone fundamental changes. The External statistics Unit of the Bank is conducting further research on this. There is therefore a possibility of retroactive revisions to earlier years in the light of the results of these analyses, if that proves justified in order to eliminate or at least reduce the methodological breaks between 2006 and 2007, and to restore historical coherence.

3. The main balance of payments items

3.1 Current account

As stated earlier, trade in goods and income from portfolio and direct investments have remained almost totally unchanged.

3.1.1 Trade in services

In the current account, trade in services is the main item exhibiting a methodological break.

In fact, the gross flows (income and expenditure) have been increased overall. We do not consider that this has any economic significance, but interpret it as an increase in coverage. The overall balance of services is entirely in line with 2006 (4.9 billion in 2007 against 5.1 billion in 2006). However, there are considerable shifts between components, which are being examined more closely. The initial findings indicate that certain shifts could be perfectly correct.

3.1.2 Current transfers

As far as government transfers are concerned, the central element of current transfers comprises our transactions with international institutions. These are exogenous sources which are unchanged.

In the case of current transfers from other sectors, we are currently investigating how certain gaps can be filled. Some occupational groups which were covered by the old, generally exhaustive system, do not form part of the new population, and are now implicitly estimated. The organisation of a new survey on this subject is under consideration.

3.2 Capital account

This account, definitely the least important element of the Belgian balance of payments, is little influenced by the methodological changes since the sources are totally administrative, as far as the government sector is concerned.

For the other sectors, the main item is the negotiation of CO2 emission rights under the Kyoto agreement; here the market leader reports in the same way as before.

3.3 Financial account

3.3.1 Portfolio investments

The portfolio investment data collection system has undergone fundamental changes since 2007.

Up to 2006, portfolio investments were assessed on the basis of payments. Financial institutions and enterprises stated their purchases and sales of Belgian and foreign securities with a foreign counterparty, indicating the counterparty's country.

Since 2007, however, the Bank has switched to the "security-per-security" principle.

This means that all financial institutions have to submit a full monthly statement of outstanding amounts relating to all foreign securities in their portfolio, both for their own account and for the account of residents who have deposited such securities with them, in accordance with the individual ISIN codes (or, failing that, another identification code) for the securities. Conversely, they must also report on Belgian securities which they hold in custody for foreigners. The outstanding amounts of their own issues must be notified, too.

A similar obligation applies to institutional investors as far as their own portfolio of foreign securities is concerned.

Methodologically, the big difference is that, under the old system, the portfolio transactions were recorded at the price actually paid or received. In contrast, under the new system, which takes account of price fluctuations and exchange rate changes, the real variation in the value of the portfolio over a certain period is deduced.

Less relevant for the overall published figures, but still very important for our contribution to the balance of payments of the euro area, is that this also replaces the concept of "payment counterparty's country" with the "security issuer's country"; this is crucial for correct geographical allocation.

3.3.2 Direct investments

- a) Financial institutions report their own account transactions in the same way as before. Nothing has changed.
- b) Other sectors: all enterprises which the Bank knows have direct investment links are surveyed about those links at intervals which depend on the financial significance of those enterprises.

When these initial estimates are produced, the data thus collected are supplemented with data on foreign direct investments obtained principally from administrative sources, essentially the *Moniteur belge*/Belgisch Staatsblad.

In addition, the method of producing the statistics on direct investments has changed by the current application of what is called the directional principle.

This means that - in contrast to what used to happen - changes in financial assets and liabilities between the same enterprises are now offset in order to provide a better picture of the real impact.

The result is that, while the publication of initial, provisional data does correctly indicate the fundamental trend in direct investment, the data will regularly be revised and refined subsequently.

3.3.3 Other investments and derivatives

These are divided into four sectors, three of which are obtained from unchanged sources:

- Monetary authority, particularly the Bank (accounting data of the Bank)
- Government (administrative sources)
- Financial institutions ("Scheme A")

The fourth sector ("Other sectors") is questioned in a manner similar to that outlined above under "direct investments".

After a time lag of one quarter, these data are revised on the basis of the data from the BIS (Bank for International Settlements, Basel), which provides mirror data on Belgian deposits in the rest of the world and vice versa; this mainly permits the additional recording of the "households" sector.

3.4 Reserves

The source is unchanged, namely the NBB's accounts.