

The balance of payments for non-specialists

April 2016

1. General

Belgium has a very open economy. It is therefore vital to provide an overview of all transactions with other countries. The balance of payments provides that in a structured way. It is a statistical summary of all transactions between residents and non-residents (see below) over a given period, generally one month, one quarter or one year. The expression “balance of payments” may be slightly confusing because it does not only concern payments: it also relates to transactions which have no financial counterpart.

One of the central concepts of the balance of payments is the concept of residence: a person or firm is considered to be a resident of the country where their centre of economic interest lies. In simple terms, we can say that, in the case of households, it is the place where they live for a year or more (irrespective of their nationality¹). For example, a Polish national who comes to work in Belgium for two years is regarded as a Belgian resident. Firms are residents of the country where they are established. They need not have any specific legal status in order to be regarded as residents. For instance, if a Dutch firm has a branch established in Belgium, that branch is regarded as a Belgian resident for the purposes of the balance of payments. Supranational and international institutions are regarded, by international convention, as residents of a (notional) international territory and not as residents of the country where they are based. The European Commission is therefore not a Belgian resident. Conversely, a foreigner who works at the European Commission and lives in Belgium for more than a year is regarded as a Belgian resident. For reasons of simplification other exceptions are not discussed here.

The balance of payments is drawn up in accordance with the 6th edition of the “Balance of Payments and International Investment Position Manual” ([BPM6](#)) produced by the International Monetary Fund (IMF). These international standards have been transposed into a [European regulation](#).

The balance of payments comprises three main sections: the current account, the capital account and the financial account. The current account records the real economy. The capital account records acquisitions and disposals of non-produced non-financial assets and capital transfers. The financial account is the financial counterpart of the transactions effected in the real economy (current transactions) and the transactions recorded in the capital account. In principle, the balance of payments is therefore always in equilibrium. Transactions are balanced in accordance with the double entry principle²: an export of goods (current account) either increases the claim on other countries or reduces the debt (financial account). In practice, due to the use of multiple sources, equilibrium is the exception rather than the rule. Hence the addition of a fourth section: net errors and omissions. This residual item is calculated by taking the balance of the financial account and deducting the sum of the current account plus the capital account.

¹ In the rest of this note, the term “Belgian” always refers to residence according to the balance of payments, and never relates to nationality.

² Each transaction is recorded twice, once in the credit column and once in the debit column. The sum of all the debits must equal the sum of the credits. A credit is recorded if a product or service is exported, if income is received or if the capital account increases. In the financial account, the recording of a credit reflects a reduction in claims or an increase in debts in relation to the rest of the world. A debit is recorded if a product or service is imported, if income is payable, or if the capital account diminishes. In the financial account the recording of a debit reflects an increase in claims or a reduction in debts in relation to the rest of the world.

A country's net lending and borrowing can be calculated by adding the balance of the current account to the balance of the capital account; the result of that operation should correspond to the balance of the financial account.

Box 1.1 Structure of the balance of payments

Current account
- Goods account
- Services account
- Primary income account
- Secondary income account
Capital account
Financial account
- Direct investment
- Portfolio investment
- Financial derivatives
- Other investment
- Reserve assets
Net errors and omissions

Box 1.2: Examples of double entry book-keeping

A Belgian firm sells pharmaceutical products to a French firm:

1. the goods pass from the Belgian firm to the French firm (export of goods, credit);
2. the French firm pays the Belgian firm for the goods (increase in claims or reduction in debts on the rest of the world, debit).

A Belgian firm borrows money from a French bank:

1. the Belgian firm receives the money from the French bank (increase in claims on the rest of the world, debit);
2. the Belgian firm has a debt to the French bank (increase in debts to the rest of the world, credit).

2. The current account

The current account comprises four sub-accounts: the goods account, the services account, the primary income account and the secondary income account³.

³ Before publication of BPM6, the secondary income account was called "current transfers". Its content has remained largely the same. The [website](#) provides additional information on the changes made by the BPM6.

2.1. The goods account

The goods account records all transfers of ownership of goods between residents and non-residents. It comprises three headings: “general merchandise on a balance of payments basis”, merchanting, and non-monetary gold.

Box 2.1: The goods account

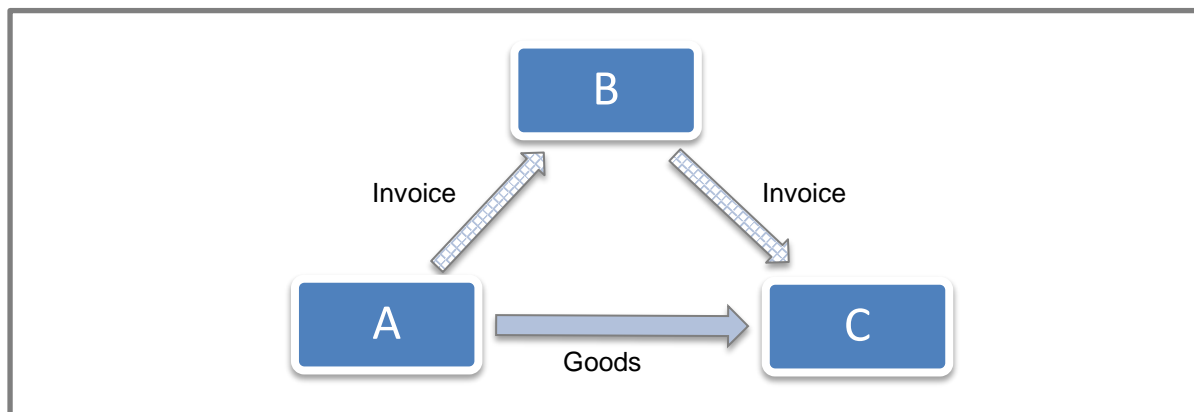
Goods account

- General merchandise on a balance of payments basis
- Merchanting
- Non-monetary gold

General merchandise on a balance of payments basis is largely based on the foreign trade statistics. Section 5.2 provides more detailed information on that relationship.

Merchanting concerns transactions in which merchandise is bought from a non-resident (A) by a resident (B) and resold to another non-resident (C). The merchandise passes directly from one non-resident to another non-resident (without crossing the Belgian border), although there is no direct contractual link between the two non-residents.

Box 2.2: Merchanting



Non-monetary gold means all gold except monetary gold⁴. This concerns physical gold (included in the foreign trade statistics) and allocated gold accounts⁵.

⁴ Monetary gold is the gold held in reserve by the National Bank of Belgium, and which therefore has to be recorded under the heading of “reserve assets” in the balance of payments (see below).

⁵ The allocated gold accounts are accounts linked to a specific (numbered) piece of gold.

2.2. The services account

The services account can be subdivided into 13 different headings, as shown in box 2.3. The subdivision is based on the type of service, as illustrated with the aid of some practical examples in box 2.4.

Box 2.3: The services account

Services account

- Manufacturing services on physical inputs owned by others (processing)
- Maintenance and repair services
- Transportation
- Travel
- Telecommunication, computer and information services
- Construction services
- Insurance and pension services
- Financial services
- Royalties and licence fees
- Other business services
- Personal, cultural and recreational services
- Government goods and services not included elsewhere
- Non-allocated services

Box 2.4: Examples of services

A Belgian construction company takes out insurance in the Netherlands: this operation is recorded as the import of an insurance service and not a construction service.

A Belgian restaurant, part of an international chain, pays an annual fee to the franchise holder as a franchisee for use of the intellectual property rights (brand name, logos, recipes, etc.): that operation is recorded as the import of royalties and licence fees.

2.3. The primary income account

The primary income account covers income paid and income received, originating from labour, the holding of financial assets and liabilities, and the rental of natural resources.

Box 2.5: The primary income account

Primary income

- Compensation of employees
- Investment income
 - Direct investment income
 - Portfolio investment income
 - Other investment income
 - Reserve assets income
- Other primary income

The compensation of employees is only recorded if the employer and employee are residents of different economies. The employer-employee relationship is essential. If there is no employer-employee relationship and the worker is self-employed, the work will be recorded as a service and not as primary income.

Box 2.6: Example of compensation of employees

A construction worker lives in Belgium in the province of Luxembourg and is employed by a construction firm in the Grand Duchy. His income is recorded in the balance of payments as compensation of employees, and the financial account records an increase in the financial assets (claim on the rest of the world).

The same construction firm in the Grand Duchy of Luxembourg hires the services of a self-employed Belgian contractor to manage a project. That operation is recorded as a construction service in the services account of the balance of payments, and the financial account records an increase in the financial assets (claim on the rest of the world).

The above examples apply only if the construction firm in the Grand Duchy has no establishment in Belgium. Otherwise, if the worker and the entrepreneur are paid via that establishment, these income movements will not be recorded in the balance of payments. They then constitute transactions between residents.

Investment income is classified according to the investment category concerned: direct investment, portfolio investment, other investment and reserve assets. That permits a link with the financial account. These various investment categories are discussed in more detail in section 4.

2.4. The secondary income account

The secondary income account records current transfers between residents and non-residents. A transfer is a good, service or other asset (including financial items) supplied without any return of an item of economic value. Current transfers are all transfers other than capital transfers (see below).

Examples include transfers by a Belgian resident to his family in another country, or taxes payable on the income of a non-resident (such as the income tax that the Belgian construction worker cited in box 2.4 pays to the government of the Grand Duchy of Luxembourg).

3. The capital account

The capital account comprises acquisitions and disposals of non-produced non-financial assets, and capital transfers.

Box 3.1: The capital account

Capital account

- Acquisitions and disposals of non-produced non-financial assets
- Capital transfers

Non-produced non-financial assets comprise natural resources, contracts, leases and licences, marketing assets (such as brand names) and goodwill.

In practice, the difference between capital transfers and current transfers depends on the way in which they are to be used in the country of destination.

Box 3.2: Examples of current transfers and capital transfers

When food aid is sent to Nepal after an earthquake (rather than repeatedly as part of development aid, for example), that is considered as a current transfer. We record an export in the goods account and expenditure under the current transfers.

When a Belgian non-profit institution installs a water pipe in Burundi, that is considered to be a capital transfer. We record an export under the “construction” heading of the services account and expenditure under capital transfers.

4. The financial account

The financial account summarises all the transactions relating to financial assets and liabilities. It comprises five categories: direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

Box 4.1: The financial account

Financial account

- Direct investment
- Portfolio investment
- Financial derivatives
- Other investment
- Reserve assets

We refer to direct investment in cases where a resident is able to control or to significantly influence the management of a business resident in another economy. In practice, once the resident holds at least 10% of the voting power in the enterprise, it is considered to be a direct investment.

Portfolio investments are investments in the form of securities. They comprise equities and debt securities which are neither direct investments nor reserve assets. The fact that they can be traded is what distinguishes them from other investments: portfolio investments are investments which can be transferred to a different owner during their period of validity.

Financial derivatives are financial products linked to the value of an underlying product, such as a financial instrument or indicator, or a physical product such as wheat.

Other investment comprises a residual category covering transactions not included in any of the other four categories, such as loans and deposits.

A country's reserve assets are subject to the control of the monetary authority. In Belgium, that authority is the National Bank. The reserves consist of external assets held for the account of the Belgian economy. That includes monetary gold, claims on the IMF, bonds and foreign currencies.

5. The link with other types of statistics

5.1. The international investment position (IIP)

The international investment position is the statistical summary of the assets and liabilities between residents and non-residents at a particular point in time, generally at the end of a quarter or a year.

The net IIP is calculated by deducting the liabilities from the assets. A positive result indicates a net claim on the rest of the world, a negative result indicates a net liability towards the rest of the world.

The IIP at the end of period t is obtained from the IIP at the end of period t-1 plus BOP transactions during period t and plus exchange rate changes, price changes and other changes in volume.

The IIP headings correspond to those in the financial account of the balance of payments.

Box 5.1 The IIP

International investment position

- Direct investment
- Portfolio investment
- Financial derivatives
- Other investment
- Reserve assets

5.2. The foreign trade statistics

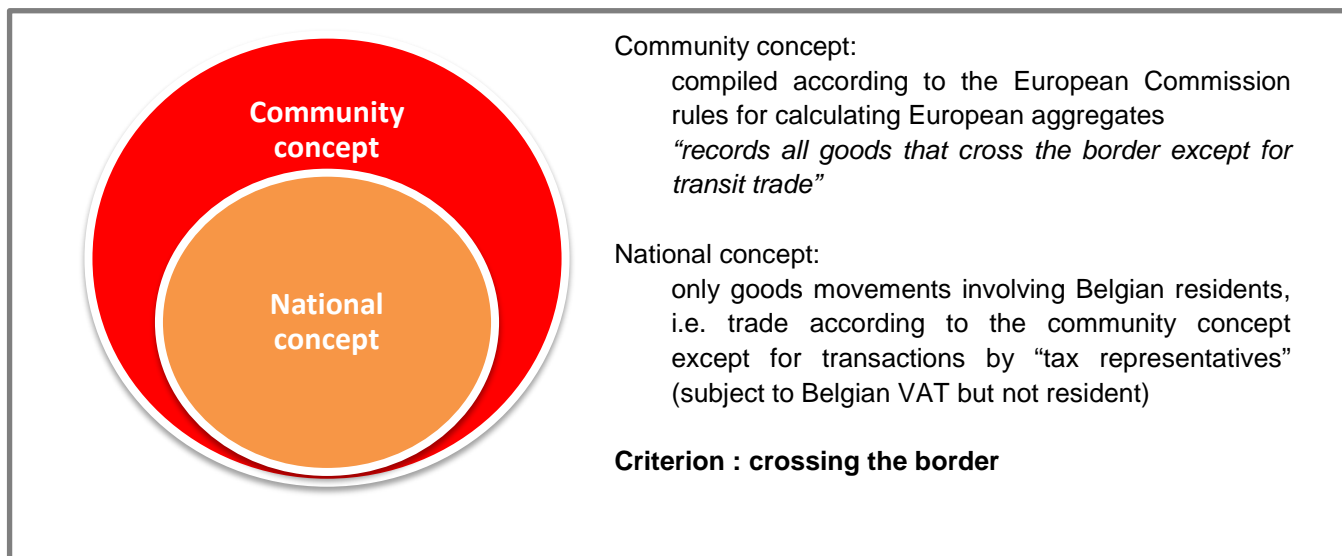
Since March 2001 the foreign trade statistics have been published according to two different concepts in Belgium:

- The foreign trade statistics according to the community concept (CC) are compiled in accordance with the rules laid down by the European Commission to enable it to produce European aggregates. For simplicity, they include all goods that cross the border, except goods in transit⁶ and some temporary movements of goods.
- Foreign trade according to the national concept (NC) is derived from foreign trade according to the community concept. It includes only imports and exports in which residents are involved. Imports and exports by non-residents subject to VAT in Belgium (known as "tax representatives") but not involving any residents are eliminated because they have no economic relevance for Belgium.

⁶ Goods in transit are goods which merely pass through Belgium. For example, this concerns goods sold by a Dutch firm to a French firm which pass through Belgium on their way from the Netherlands to France. Another example would be goods sold by a Canadian firm to a Luxembourg firm which has them dispatched to Luxembourg via a special "in transit" customs document via the port of Antwerp. The goods are therefore cleared by customs in Luxembourg, not in Belgium. Goods in transit are not included in either the foreign trade statistics or the balance of payments.

The difference between the national concept and the community concept is called “quasi-transit”.

Box 5.2: Relationship between the community concept and the national concept



While the foreign trade statistics record goods crossing the national border, the goods account of the balance of payments is based on the transfer of ownership of the goods. This goods account comprises three headings: general merchandise on a balance of payments basis, merchandising, and non-monetary gold.

The transition from the national concept of the foreign trade statistics to general merchandise on a balance of payments basis entails some adjustments. These adjustments are necessary to respect the balance of payments methodology:

- Gold is deducted from imports and exports because it is included in a separate heading in the goods account (see below).
- The data on natural gas in the gaseous state, obtained from the foreign trade statistics, are replaced by statistics obtained from a specific balance of payments survey. Natural gas in the gaseous state according to the foreign trade statistics includes all natural gas crossing the border, whether the owner is Belgian or not. That does not conform to the balance of payments methodology, so a specific survey was launched in 2013, addressed to Belgian firms and examining all transfers of ownership of natural gas in the gaseous state.
- Goods which cross the border without any change of ownership are eliminated:
 - processing: the processing of goods by a person who is not the owner of the processed goods. Since ownership of the product is not transferred, processing is regarded as a service in the balance of payments, and not as a goods transaction. Processing is therefore included in the services account. For the foreign trade statistics, processing is a goods transaction for which the gross flows are recorded (value of the goods before and after processing);
 - goods dispatched from Belgium to a Belgian construction site located abroad.

- Goods which change owner without crossing the border are added:
 - goods procured in foreign ports by resident carriers;
 - goods supplied to European institutions in Belgium.
- Parcel post consignments between households are added on the basis of data from credit card companies.

Box 5.3: Relationship between “foreign trade statistics” and “the goods account of the balance of payments”

