

Methodological comment to the balance of payments

The current account shows flows of goods, services, primary income and secondary income between residents and nonresidents. The current account balance shows the difference between the sum of exports and income receivable and the sum of imports and income payable. Exports and imports cover both goods and services, while income covers both primary (from factors of production) and secondary (current transfers) income. In the current account, a credit denoted entries from export of goods, export of services, primary and secondary income receivable, while a debit is used to record entries for imports of goods, imports of services, primary and secondary income payable to nonresidents.

Capital account shows any possible international transactions with nonproduced, nonfinancial assets and capital transfers between residents and nonresidents. Nonproduced, nonfinancial assets consist of: natural resources, contracts, leases, licenses and marketing assets.

Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose an asset (other than cash or inventories); or where a liability is forgiven by the creditor.

In current and capital accounts, all credit and debit entries are with positive sign. The balance of these items (goods, services, primary income and secondary income) is defined as the difference between credit and debit and can have both positive (surplus) and negative (deficit) signs.

The **financial account** records transactions that involve financial assets and liabilities that occur between residents and nonresidents. The financial account indicates the functional categories, sectors, instruments and maturities used for net international financing transactions.

On a functional basis, assets and liabilities are classified into the following main components: *direct investment, portfolio investment, financial derivatives and employee stock options, other investments and reserve assets.*

In external sector statistics accounts, changes in external financial assets and financial liabilities are recorded on a net basic. Therefore in the financial account the terms that are used are “net acquisition of financial assets” and “net incurrence of liabilities” instead of “assets” and “liabilities”.

The financial account does not record the change in the value of financial assets and liabilities due to revaluation, changes in the market value of the asset or unilateral write-off of the value (without transactions between resident and nonresident).

Entries in the financial account can be corresponding entries to goods, services, income, capital account or other financial account entries.

The overall balance on the financial account is defined as a difference between net acquisition of financial assets and net incurrence of liabilities. Positive balance on the financial account means net outflow of financial resources and negative – net inflow of financial resources.

Since there is no precise statistical data for certain types of external economic transactions (such as, for example, household transactions), for the compilation of some balance of payments components, statistical estimation methods are used.

One particular item in the balance of payments is labeled *Net errors and omissions*, which shows transactions and statistical discrepancies unclassified in other items of the balance of payments.

Errors and omissions can arise in the balance of payments in the following cases:

- (1) If the debit and credit for the same transaction show data from different sources that do not consist of timing or compilation methodology (differences in valuation);
- (2) If only one entry of the transaction (debit or credit) has been indicated on the basis of available data sources or statistical estimation in the balance of payments;
- (3) If the debit or credit on transaction were measured incorrectly (statistical error).

Signs «+» и «-» in the balance of payments

	«+»	«-»
Current account = Credit – debit (balance)	Surplus of the current account, Domestic savings fully cover the needs of domestic investment and ensure the growth of external savings (foreign assets) of the country and (or) reduce its external liabilities	Deficit of the current account, The lack of domestic savings for financing domestic investments is covered by external financing (increased liabilities) and (or) due to external savings of the country (reduction of foreign assets)
Trade balance = credit – debit	Net export of goods, Export of goods, credit, Import of goods, debit	Net import of goods
Balance on trade in services	Net provision of services to non-residents, Export of services, credit, Import of services, debit	Net consumption of services to nonresidents
Primary and secondary income balance	Net earnings receivable and current transfers from nonresidents Income and current transfers receivable from nonresidents Income and current transfers payable to nonresidents	Net earnings payable and transfer of current transfers to nonresidents
Capital account	Net disposals of nonproduced, nonfinancial assets and net capital transfers receivable from nonresidents Gross disposals of nonproduced, nonfinancial assets, transfers receivable Gross acquisition of nonproduced, nonfinancial assets, transfers payable	Net acquisition of nonproduced, nonfinancial assets and net capital transfers payable to nonresidents
Balance of the financial account = Net acquisition of financial assets – Net incurrence of liabilities	Net outflow of financial resources due to growth of foreign assets and (or) reduction of liabilities. Net lending with the rest of the world	Net inflow of financial resources usually occurs with the growth of liabilities and (or) reduction of assets. Net borrowing from the rest of the world
Net acquisition of financial assets = increase - reduction	Net growth of foreign assets	Net decline of foreign assets
Net incurrence of liabilities = increase - reduction	Net growth of liabilities	Net reduction of liabilities