
II. Conceptual framework and Standard Components of Balance of Payments

Definitions: -

13. *Balance of payments* is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world.
14. *Economic transactions*, for the most part between residents and nonresidents, consist of those involving goods, services, and income; those involving financial claims on, and liabilities to the rest of the world; and those (such as gifts), classified as transfers. A *transaction* itself is defined as an economic flow that reflects the creation, transformation, exchange, transfer, or extinction of economic value and involves changes in ownership of goods and/ or financial assets, the provision of services, or the provision of labor and capital.

Key concepts: -

15. *Double entry system*: the basic convention applied in constructing a balance of payments statement is that every recorded transaction is represented by two entries with equal values. One of these entries is designated a credit with a positive arithmetic sign; the other is designated a debit with a negative sign. In principle, the sum of all credit entries is identical to the sum of all debit entries, and the net balance of all entries in the statement is zero.

16. *Concept of residence*: residence is particularly important attribute of an institutional unit in the balance of payments because the identification of transactions between residents and nonresidents underpins the system. The concept of residence is based on sectoral transactor's *center of economic interest*. An institutional unit has a center of economic interest and is a resident unit of a country when from some location, dwelling, place of production, or other premises within the economic territory of country, the unit engages and intends to continue engaging, either indefinitely or over a finite period usually a year, in economic activities and transactions on a significant scale. The one-year period is suggested only as a guideline and not as an inflexible rule.
17. *Time of recording*: In balance of payments the principle of *accrual accounting* governs the time of recording of transactions. Therefore, transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished. Claims and liabilities arise when there is a change in ownership.

Classification of Balance of Payments: -

Balance of payments statistics must be arranged within a coherent structure to facilitate their utilization and adaptation for multiple purposes e.g. policy formation, analytical studies, projections, bilateral comparisons of particular components or total transactions, regional and global aggregations, etc.

The IMF bases the determination of standard components, as per BPM5, on the objectives of large number of users after comprehensive discussions and feedbacks of member countries.

Current Account

18. *Current account* covers the transactions other than those in financial items that involve economic values and occur between resident and nonresident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. The major classifications are goods, services, income, and current transfers.

Goods and services

19. *Goods*: mostly cover moveable goods that Pakistan exports to, or imports from; nonresidents and that undergo changes in ownership (actual or imputed). The Authorized Dealers are concerned with the realization and payments for goods, whereas the item 'goods' under standard components also covers goods for processing, repair on goods, goods procured in ports by carriers, and non-monetary gold.

Services: cover most of the services that are performed by Pakistanis for nonresidents (and vice versa). The major services are as under.

20. *Transportation* includes freight and passenger transportation by all modes of transportation and other distributive and auxiliary services, including rentals of transportation equipment with crew.

21. *Travel* cover goods and services, including those related to health and education, acquired from Pakistan by nonresident travelers (including excursionists) for business and personal purposes during their visits (of less than one year) in Pakistan. Travel excludes international passenger services, which are included in transportation. Students and medical

patients are treated as travelers, regardless of the length of stay. Certain others – military and embassy personnel and nonresident workers are not treated as travelers. However, expenditure by nonresident workers is included in travel, while those of military and embassy personnel are included in government services n.i.e.

22. *Communication services* cover communication transactions between Pakistanis and nonresidents. Such services comprise postal, courier, and telecommunications services.
23. *Construction services* cover construction and installation project work that is, on a temporary basis, performed abroad/in Pakistan or in extraterritorial enclaves by resident/ nonresident enterprises and associated personnel.
24. *Insurance services* cover the provision of insurance to nonresidents by Pakistani insurance enterprises and vice versa. The item comprises services provided for freight insurance (on goods exported and imported), services provided for other types of direct insurance (including life and non – life), and services provided for reinsurance.
25. *Financial services* (other than those related to insurance enterprises and pension funds) cover financial intermediation services and auxiliary services conducted between Pakistanis and nonresidents. Included are commissions and fees for letters of credit, lines of credit, financial leasing services, foreign exchange transactions, consumer and business credit services, brokerage services, underwriting services, arrangements for various forms of hedging instruments, etc. Auxiliary services include financial market operational and regulatory services, security custody services, etc.

26. *Computer and information services* cover resident/nonresident transactions related to hardware consultancy, software implementation, information services (data processing, data base, news agency), and maintenance and repair of computers and related equipment.
27. *Royalties and license fees* cover receipts (exports) and payments (imports) of Pakistanis and nonresidents for (i) the authorized use of intangible non-produced, non-financial assets and proprietary rights—such as trademarks, copyrights, patents, processes, techniques, designs, manufacturing rights, franchises, etc. and (ii) the use, through licensing agreements, of produced originals or prototypes—such as manuscripts, films, etc.
28. *Other business services* provided by Pakistanis to nonresidents and vice versa cover merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional, and technical services.
29. *Personal, cultural, and recreational services* cover (i) audiovisual and related services and (ii) other cultural services provided by Pakistanis to nonresidents and vice versa. Included under (i) are services associated with the production of motion pictures on films or videotape, radio and television programs and musical recordings. (Examples of these services are rentals and fees received by actors, producers, and etc. for productions and for distribution rights sold to the media.) Included under (ii) are other personal, cultural, and recreational services—such as those associated with libraries, museums—and other cultural and sporting activities.
30. *Government services n.i.e.*, cover all services (such as expenditures of embassies and consulates) associated with government sectors or international and regional organizations and not classified under other items.

Income

31. *Compensation of employees* covers wages, salaries, and other benefits, in cash or in kind, and includes those of border, seasonal, and other nonresident workers (e.g. local staff of embassies)
32. *Investment income* cover receipts and payments of income associated, respectively with Pakistanis' holdings of external financial assets and with Pakistanis' liabilities to nonresidents. Investment income consists of direct investment income, portfolio investment income, and other investment income.

Current transfers

33. *Current transfers* are the offsets to changes, which take place between Pakistanis and nonresidents in ownership of real or financial items without quid pro quo.

Capital and financial account

34. *Capital account* mainly covers capital transfers and acquisition / disposal of nonproduced, nonfinancial assets.
35. *Financial account* involves transactions associated with changes of ownership of foreign financial assets and liabilities of an economy. These are classified in four institutional sectors viz. monetary authorities; general government, banks, and other sectors.
36. *Direct investment* reflects the lasting interest of a resident entity in one economy (direct investor) in an entity resident in another economy (direct investment enterprise). That is, it covers the initial transaction between the

- two and all-subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated.
37. *Portfolio investment* covers transactions in equity securities less than 10% share and debt securities. The debt securities are sub-sectored into bonds and notes, and money market instruments.
38. *Other investments short and long term* cover trade credits, loans, currency and deposits, and other accounts receivable and payable.

Reserves

39. *Reserve assets* cover transactions in assets that are considered by the State Bank of Pakistan, to be available for international settlements. The items covered are monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (currency, deposits, and securities), and other claims.

Balance of Payments: Standard Components

1. Current account

A. Goods and services

a) Goods

1. *General merchandise*
2. *Goods for processing*
3. *Repairs on goods*
4. *Goods procured in ports by carriers*
5. *Non-monetary gold*
 - 5.1 Held as a store of value
 - 5.2 Other

b) Services

1. *Transportation*
 - 1.1 *Sea transport*
 - 1.1.1 Passenger
 - 1.1.2 Freight
 - 1.1.3 Other
 - 1.2 *Air transport*
 - 1.2.1 Passenger
 - 1.2.2 Freight
 - 1.2.2 Other

- 1.3 *Other transport (Rail, Road, etc.)*
 - 1.3.1 Passenger
 - 1.3.2 Freight
 - 1.3.2 Other
- 2. *Travel*
 - 2.1 Business
 - 2.2 Personal
- 3. *Communication services*
- 4. *Construction services*
- 5. *Insurance services*
- 6. *Financial services (other than insurance)*
- 7. *Computer and information services*
- 8. *Royalties and license fees*
- 9. *Other business services*
 - 9.1 Merchanting and other trade related services
 - 9.2 Operational leasing services
 - 9.3 Miscellaneous business, professional, and technical services
- 10. *Personal, cultural, and recreational services*
 - 10.1 Audiovisual and related services
 - 10.2 Other cultural and recreational services
- 11. *Government services, n.i.e.*

B. Income

- 1. *Compensation of employees*
- 2. *Investment income*
 - 2.1 Direct investment
 - 2.1.1 Income on equity
 - 2.1.1.1 Dividends and distributed branch profits
 - 2.1.1.2 Reinvested earnings and undistributed branch profits
 - 2.1.2 Income on debt (interest)
 - 2.2 Portfolio investment
 - 2.2.1 Income on equity (dividends)
 - 2.2.2 Income on debt (interest)
 - 2.2.2.1 Bonds and notes
 - 2.2.2.2 Money market instruments and financial derivatives
 - 2.3 Other investment

C. Current transfers

- 1. General government
- 2. Other sectors

2. Capital and Financial Account

A. Capital Account

1. Capital transfers

1.1 General government

1.1.1 Debt forgiveness

1.1.2 Other

1.2 Other

1.2.1 Migrants' transfers

1.2.2 Debt forgiveness

1.2.3 Other

2. Acquisition of non-produced non-financial assets

B. Financial Account

1. Direct investment

1.1 Abroad

1.1.1 Equity capital

1.1.1.1 Claims on affiliated enterprises

1.1.1.2 Liabilities on affiliated enterprises

1.1.2 Reinvested earnings

1.1.3 Other capital

1.1.3.1 Claims on affiliated enterprises

1.1.3.1.1 Debt securities issued by affiliated enterprises

1.1.3.1.2 Other claims on affiliated enterprises

1.1.3.2 Liabilities to affiliated enterprises

1.1.3.2.1 Debt securities issued by direct investors

1.1.3.2.2 Other liabilities of direct investors

1.2 In reporting economy (Pakistan)

1.2.1 Equity capital

1.2.1.1 Claims on direct investors

1.2.1.2 Liabilities to direct investors

1.2.2 Reinvested earnings

1.2.3 Other capital

1.2.3.1 Claims on direct investors

1.2.3.1.1 Debt securities issued by direct investors*

1.2.3.1.2 Other claims on direct investors*

1.2.3.2 Liabilities to direct investors

1.2.3.2.1 Debt securities issued by affiliated enterprises*

1.2.3.2.2 Other liabilities to direct investors*

2. Portfolio investment

2.1 Assets

2.1.1 Equity securities

2.1.1.1 Monetary authorities

2.1.1.2 General government

2.1.1.3 Banks

2.1.1.4 Other sectors

2.1.2 Debt securities

2.1.2.1 Bonds and notes

2.1.2.1.1 Monetary authorities

2.1.2.1.2 General government

2.1.2.1.3 Banks

2.1.2.1.4 Other sectors

2.1.2.2 Money market instruments

2.1.2.2.1 Monetary authorities

2.1.2.2.2 General government

2.1.2.2.3 Banks

2.1.2.2.4 Other sectors

2.1.2.3 Financial derivatives

2.1.2.3.1 Monetary authorities

2.1.2.3.2 General government

2.1.2.3.3 Banks

2.1.2.3.4 Other sectors

2.2 Liabilities

2.2.1 Equity securities

2.2.1.1 Banks

2.2.1.2 Other sectors

2.2.2 Debt securities

2.2.2.1 Bonds and notes

2.2.2.2.1 Monetary authorities

2.2.2.2.2 General government

2.2.2.2.3 Banks

2.2.2.2.4 Other sectors

2.2.2.2 Money market instruments

2.2.2.2.1 Monetary authorities

2.2.2.2.2 General government

2.2.2.2.3 Banks

2.2.2.2.4 Other sectors

2.2.2.3 Financial derivatives

- 2.2.2.3.1 Banks
- 2.2.2.3.2 Other sectors

3. *Other investment*

3.1 Assets

- 3.1.1 Trade creditors
 - 3.1.1.1 General government
 - 3.1.1.1.1 Long-term
 - 3.1.1.1.2 Short-term
 - 3.1.1.2 Other sectors
 - 3.1.1.2.1 Long-term
 - 3.1.1.2.2 Short-term
- 3.1.2 Loans
 - 3.1.2.1 Monetary authorities
 - 3.1.2.1.1 Long-term
 - 3.1.2.1.2 Short-term
 - 3.1.2.2 General government
 - 3.1.2.2.1 Long-term
 - 3.1.2.2.2 Short-term
 - 3.1.2.3 Banks
 - 3.1.2.3.1 Long-term
 - 3.1.2.3.2 Short-term
 - 3.1.2.4 Other sectors
 - 3.1.2.4.1 Long-term
 - 3.1.2.4.2 Short-term
- 3.1.3 Currency & Deposits
 - 3.1.3.1 Monetary authorities
 - 3.1.3.2 General government
 - 3.1.3.3 Banks
 - 3.1.3.4 Other sectors
- 3.1.4 Other assets
 - 3.1.4.1. Monetary authorities
 - 3.1.4.1.1 Long-term
 - 3.1.4.1.2 Short-term
 - 3.1.4.2. General government
 - 3.1.4.2.1 Long-term
 - 3.1.4.2.2 Short-term
 - 3.1.4.3 Banks
 - 3.1.4.3.1 Long-term
 - 3.1.4.3.2 Short-term
 - 3.1.4.4 Other sectors
 - 3.1.4.4.1 Long-term
 - 3.1.4.4.2 Short-term

3.2 Liabilities

- 3.2.1 Trade creditors
 - 3.2.2.1 General government
 - 3.1.2.1.1 Long-term
 - 3.1.2.1.2 Short-term
 - 3.2.2.2 Other sectors
 - 3.2.2.2.1 Long-term

- 3.2.2.2.2 Short-term
- 3.2.2 Loans
 - 3.2.2.1 Monetary authorities
 - 3.2.2.1.1 Use of Fund credit and loans from the Fund
 - 3.2.2.1.2 Other long-term
 - 3.2.2.1.3 Short-term
 - 3.2.2.2 General government
 - 3.2.2.2.1 Long-term
 - 3.2.2.2.2 Short-term
 - 3.2.2.3 Banks
 - 3.2.2.3.1 Long-term
 - 3.2.2.3.2 Short-term
 - 3.2.2.4 Other sectors
 - 3.2.2.4.1 Long-term
 - 3.2.2.4.2 Short-term
- 3.2.3 Currency & Deposits
 - 3.2.3.1 Monetary authorities
 - 3.2.3.2 Banks
- 3.2.4 Other liabilities
 - 3.2.4.1 Monetary authorities
 - 3.2.4.1.1 Long-term
 - 3.2.4.1.2 Short-term
 - 3.2.4.2 General government
 - 3.2.4.2.1 Long-term
 - 3.2.4.2.2 Short-term
 - 3.2.4.3 Banks
 - 3.2.4.3.1 Long-term
 - 3.2.4.3.2 Short-term
 - 3.2.4.4 Other sectors
 - 3.2.4.4.1 Long-term
 - 3.2.4.4.2 Short-term
- 4 Reserve assets
 - 4.1 Monetary gold
 - 4.2 Special drawing rights
 - 4.3 Reserves position in the Fund
 - 4.4 Foreign exchange
 - 4.4.1. Currency and deposits
 - 4.4.1.1 With monetary authorities
 - 4.4.1.2 With banks
 - 4.4.2 Securities
 - 4.4.2.1 Equities
 - 4.4.2.2 Bonds and notes
 - 4.4.2.3 Money market instruments and financial derivatives
 - 4.5 Other claims