

IMPLEMENTING THE FIFTH EDITION MANUAL:  
THE BARBADOS EXPERIENCE

by

Trevor Campbell

and

Nola Bynoe-Mayers

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By

Trevor Campbell  
Economist  
Central Bank of Barbados  
P.O.Box 1016  
Bridgetown  
Barbados, West Indies

and

Nola Bynoe-Mayers  
Statistical Officer  
Central Bank of Barbados  
P.O.Box 1016  
Bridgetown  
Barbados, West Indies

Tele.: (246)436-6870  
Fax: (246)427-1431

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## INTRODUCTION

The primary responsibility for developing international guidelines in the compilation of Balance of Payments (BOP) statistics lies with the International Monetary Fund (IMF). In order that member countries may be guided in reporting information on their external positions on an internationally comparable basis, the IMF has issued a Manual on the preparation of BOP statistics. The first edition was published in 1948 and since that year four additional editions were published, the last of these being in 1993.

However, over the years, important changes in international trade and finance have occurred. These include the liberalization of financial markets, innovations in the creation and packaging of financial instruments, new approaches to the restructuring of external debt and the expansion of international trade in goods and services. All of these developments have necessitated changes in the treatment and classification of such transactions within the structure of the BOP accounts. Consequently, this led to the introduction of the fifth edition of the Manual in 1993, although it was not implemented by Barbados until two years later. With the introduction of this new edition, the revised System of National Accounts (SNA) and the methodologies of the IMF have been harmonised as closely as possible with respect to money, banking and government finance statistics. The fifth edition has redesignated the former capital account as the capital and financial account, with separate components for capital and financial transactions. Under the new edition, only transactions are recorded in the BOP; valuation changes are captured in the international investment position, which is the balance sheet of a country's external assets and liabilities.

While the implementation of the fifth edition may be desirable in light of the many changes being experienced in the world today, it impacts on different countries in a variety of ways because of the uniqueness of each country. It is against this background that the Barbados experience will be examined. It is important to note that although Barbados has implemented the fifth edition, it has tried wherever possible to retain the old BOP structure for simplicity. Data are obtained primarily using the survey method but Central Bank of Barbados, the Ministry of Finance, Ministry of Labour and Ministry of Foreign Affairs are other sources. The purpose of this paper therefore is to see to what extent Barbados' BOP statistics have been enhanced or affected by the introduction of the new edition and to document the associated problems. We deal first with the current account, then the capital account, and the international investment position. This will be followed by a conclusion.

## SECTION ONE

### FOURTH AND FIFTH EDITION TREATMENT OF CURRENT AND CAPITAL ACCOUNT ITEMS AND A BRIEF LOOK AT THE INTERNATIONAL INVESTMENT POSITION

#### (a) Current Account

Under the fourth edition the current account comprises the merchandise trade balance, services and income, and transfers. In the merchandise trade account, exports are valued at free on board (FOB) prices while imports are valued at cost, insurance and freight (CIF). In examining exports and imports, one should be aware of (a) those goods which do not cross the frontier

but should be included in merchandise as well as (b) those goods which cross the frontiers without changing ownership, and should not be covered in merchandise items. In the case of

(a), the following goods are noted:

- (i) ships, aircraft and gas and oil drilling rigs and production platforms;
- (ii) goods consumed by offshore installations, e.g. gas and oil drilling rigs and production platforms;
- (iii) goods salvaged and fish and other marine products caught by the compiling economy's ships and sold abroad directly;
- (iv) goods purchased in one foreign country by the compiling economy's government for its own use in another foreign country;
- (v) goods lost or destroyed after ownership has been acquired by the importer but before they have crossed a frontier.

In the second instance, goods which fall under this description are as follows:

- (i) goods for processing and re-export;
- (ii) goods for servicing and re-export by the servicing economy;
- (iii) returned imports and exports;
- (iv) goods shipped under operational arrangements;
- (v) transportation equipment, fishing vessels and other mobile equipment that are to operate outside the domestic territory for less than one year;
- (vi) direct transit trade;
- (vii) shipments by a given economy to that economy's military and diplomatic establishments that are located outside the territory of that economy;

(viii) goods lost or destroyed after having crossed the frontier but having been delivered by the exporter;

- (ix) goods temporarily exported and imported, not for sale, e.g. art exhibitions, animals for breeding, show, or racing, stage and circus equipment; and
- (x) samples of no commercial value.

In the case of services, these are broken down into government services (not included elsewhere), transportation, travel, investment income, and other services and income. Government services mainly capture the transactions of government officials with non-residents, including the acquisition or disposal of land and structures. Transportation includes shipment, passenger services, port services and miscellaneous transportation.

Travel is divided into business travel and personal travel although this is not broken down in such a manner in the standard components of the fourth edition. Business travel covers commercial travel and official travel. On the other hand, the major components of personal travel are long-stay visitors (that is, visitors who spend more than twenty four hours but less than one year in a particular country), excursionists (visitors who spend less than twenty four hours in a country), students and medical patients. Students and medical patients should not spend more than one year in the compiling country.

Investment income includes income from direct investment (comprising reinvested earnings and distributed earnings) and income from portfolio investment, either of a private or governmental nature.

Other services and income capture items such as insurances, communications, agents' commissions, advertising, labour income (that is, wages, salaries and any other compensation either in cash or kind), property income (i.e. income from patents, copyrights, franchises etc.), and miscellaneous services (e.g. financial services, computer and information services, operational leasing and audiovisual and related services, to name a few). The Manual recommends that insurance services be calculated based on the difference between premiums and claims.

Transfers are disaggregated into private and government transfers. Private transfers comprise migrant transfers, workers' remittances, pensions from foreign governments, gifts in cash or kind and debt forgiveness. Migrant transfers, in the strictest sense, are not unrequited transfers but are contra entries to the flows of goods and changes in financial items that arise from migration of individuals from one economy to another. Debt forgiveness is when one creditor formally agrees (via a contractual agreement) to forgive all, or part, of the obligations of the debtor to that creditor. The difference between insurance premiums received and the insurance service charged should also be entered under this heading. Government transfers can also be in cash or in kind and are made to other governments, private organisations and

individuals. Also included under government transfers are withholding taxes on interest and dividends, airport departure tax, fees for passports paid by non-residents and debt forgiveness.

With the introduction of the fifth edition, the current account was now defined to include goods, services, income, and current transfers. In the previous edition, goods simply included exports and imports, giving rise to a merchandise trade balance. However in addition to merchandise trade, the following items now qualify as goods:

- (a) goods for processing;
- (b) goods for repairs;
- (c) goods procured in ports by carriers (formerly stores and bunkers);
- (d) non-monetary gold.

In accordance with general BOP principles, change of ownership is the principle determining the coverage and time of recording of international transactions in goods. The inclusion of goods for processing under the category of goods is an exception to the principle. Goods for processing covers goods that are exported or imported for processing on the basis of a contract or fee. In the revised Manual, there is concordance with the SNA concept of distinguishing between processing in which goods undergo substantial change and other processing. The ideal would be to include the former under goods and the latter under services, as is the case in the SNA. However because it is difficult to make such a distinction, and because most processing involves substantial change, the practical recommendation is to include all processing under goods. The payment for processing is entered under services and an adjustment made to the

good to include the value of processing. In the case of repairs, the new Manual recommends that the value of all repairs be included under goods. It should be noted that goods for repairs exclude repairs to computers and construction repairs which are both treated as services. Item (c) was once captured in the transportation table under services while item (d) was originally recorded under merchandise. Freight and insurance are no longer included in imports when calculating the trade balance. These components have been transferred to services.

The services tables (with the exception of government services) also underwent its fair share of adjustments with the introduction of the fifth edition. Travel was now broken down into business and personal travel in the standard components whereas students and medical patients have been redefined as residents of their native country.

As was stated earlier, transportation excludes goods procured in ports by carriers but now includes freight, originally a part of merchandise. Under the new edition, each component is broken down into sub-components such as air transport, sea transport and other transport (for example, rail, pipeline, storage, cargo handling etc.).

Other services and income table has been renamed other services since it excludes labour income (now referred to as compensation of employees). In addition, income from patents, franchises and copyrights, which was known as property income under the fourth edition, has now been labelled as a fees item under this heading. Merchandise insurance, previously under goods, is now a component of this table. One of the interesting changes recommended by the

fifth edition relates to the treatment of the insurance charge. Under the latest edition, it is necessary to distinguish between life and non-life insurance.

In the case of non-life insurance, the service charge is recorded in the same manner as mentioned in the fourth edition for the exporter, but with regard to the importer, an adjustment has been made to the calculation of the service charge, namely by multiplying gross premiums paid to non-resident insurers by the ratio of insurance services to gross premiums for exports of services. As was the case before, total premiums less the service charge is recorded under current transfers. If claims exceed premiums for the export of insurance services, implying a negative service charge, then the new edition recommends that a service charge be calculated by using a long-term relationship between premiums and claims.

As far as life insurance is concerned, while the Manual recommends similar treatment as in the case of non-life insurance, using premiums less claims as a proxy for the insurance is more likely to result in a negative service charge for life insurance than non-life insurance. Consequently an alternative method of calculating the service charge for life insurance would be to divide the sum of operating costs and profits of life insurance enterprises into total premiums payable on the export or import side or to use ratios from BOP compilers in other countries. A further alternative is to ignore the service charge for life insurance companies altogether since the Manual implies that service charges tend to be a relatively small percentage of premiums. Unlike non-life insurance, the difference between total premiums and the service charge is treated as a financial transaction and not recorded under current transfers.

The fifth edition also highlights some items which were subsumed in miscellaneous services in the previous edition, for example, merchanting, computer and information services, operational leasing, financial services, audiovisual and related services. A merchanting transaction refers to the purchase of a commodity by a resident and the subsequent resale of the good to another resident without the good entering or leaving the compiling economy. Financial services capture among other things, the transactions of offshore companies, which have been reclassified as resident in their country of operation<sup>1</sup>.

Income is a new table recommended by the new Manual and captures the components of investment income along with compensation of employees. Income from debt is a new item appearing in this table.

Transfers are disaggregated into current and capital transfers. Current transfers remain basically the same except for debt forgiveness and migrant transfers, both shifted to the capital account, which will now be discussed below.

### Capital Account

The capital account records changes in legal ownership of an economy's foreign assets and liabilities. This account is broken down into reserve assets, direct investment capital, portfolio investment capital, and other capital. Under the fourth edition, reserves comprise monetary gold, special drawing rights (SDRs), reserve position in the Fund, foreign exchange assets, use

of Fund credit, and other claims. Direct investment occurs when an investor acquires 25% or more of the voting stock of a foreign enterprise whereas portfolio investment occurs when less than 25% of the voting stock of an enterprise is acquired by an investor. Other capital is a residual category.

Direct investment capital covers equity capital, reinvestment of earnings, other long-term capital and short-term capital. Transactions in land and structures between residents and non-residents, except government entities, are included under equity capital. Portfolio investment capital includes public and private sector bonds and corporate equities. Other capital comprises long-term transactions, for example, loans and long-term deposit money banks, and short-term transactions such as trade credits and short-term deposit money banks. Under the fourth edition, it is important to note that movements in foreign assets brought about by transactions, valuation changes, price changes and other changes are included in the BOP.

The fifth edition breaks the capital account into separate accounts for capital transactions and financial transactions. The capital account covers capital transfers and the acquisition/disposal of non-produced non financial assets. A capital transfer consists of the following:

- (a) the transfer of ownership of a fixed asset when no counterpart is received in return;
- (b) the forgiveness of a liability when no counterpart is received in return;
- (c) a transfer of cash when it is linked to, or conditional upon the acquisition or disposal of a fixed asset.

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Capital transfers are broken down into debt forgiveness and migrant transfers, both already defined.

Non-produced non financial assets are tangible and intangible assets which may be needed for production of goods and services but which themselves have not been produced. Assets which qualify here are land and other sub-soil assets on one hand, and patents, copyrights, trademarks and copyrights on the other. In the case of land, land should be included under this heading only if acquired by an embassy.

The financial account covers all of those items which were in the old capital account but not without some adjustments. In the case of reserve assets, the fifth edition excludes all reserve asset changes that are not attributable to transactions. Thus value changes that result from fluctuations in prices of reserve assets, changes associated with the creation of reserve assets (monetization/demonetization of gold and allocation/cancellation of SDRs), and counterparts offsetting such changes are not recorded in BOP statements. In addition, the use of Fund credit is now been shifted other investment.

Direct investment has now been redefined as the foreign ownership of 10% or more of the voting stock of an enterprise while portfolio investment is now defined as the foreign ownership of less than 10% of the voting stock of an enterprise. While direct investment is broken down into equity capital, reinvested earnings and other capital as before, however two of these components have now been further disaggregated. The sub-components of equity

capital and other capital are claims on affiliated enterprises and liabilities in the case of direct investment abroad, and claims on and liabilities to direct investors in the case of direct investment in the reporting economy.

Portfolio investment continues to include equity and debt securities but the new edition requires that the information on these instruments be shown under monetary authorities, general government, banks and other sectors. In addition, debt securities are disaggregated into bonds and notes, money market instruments and financial derivatives.

As is the case with portfolio investment, information on other investment is split into the same sectors as above. This information is required both on a long and short-term basis. Other deviations from the fourth edition are the inclusion of the use of Fund credit as mentioned earlier and the highlighting of trade credits.

The fifth edition of the manual addresses for the first time, the issue of exceptional financing. Exceptional financing refers to any arrangement made by monetary authorities of an economy to finance BOP needs other than by the use of reserve assets and Fund credit. This concept evolved following following the debt crisis of the 1980's and has assumed increased importance in international economic relations. Among transactions identified as exceptional financing are debt forgiveness, debt/equity swaps, and other transactions related to debt reorganisation such as rescheduling of existing debt and repayment of arrears.

### **International Investment Position (IIP)**

The IIP is already defined as the balance sheet of the stock of external financial assets and liabilities. Such a position at the end of a specific period reflects financial transactions, valuation changes and other adjustments, all of which affect the level of assets and/or liabilities, that occurred during the period. In principle, all external financial assets and liabilities should be measured at current market prices as of the dates involved (i.e. beginnings or ends of reference periods) - see IMF Manual, 5th ed., para 467. In practice, there may be some departures from the market price principle. For direct investment, book values from the balance sheets of direct investment enterprises are utilized to determine the value of the stock of direct investments. Reserve assets and portfolio investment are valued at current market prices at the appropriate reference dates. However items that are not readily transferable among transactors (e.g. loans, deposits, miscellaneous accounts receivable and payable) are recorded in the IIP at nominal or face value (as in the case for currency). In general, that value is an acceptable proxy for market value. The following section addresses the impact of the new treatment of items on Barbados' BOP statistics.

## **SECTION TWO**

### **THE IMPACT OF THE FIFTH EDITION ON BARBADOS' BOP STATISTICS**

It is evident from the previous section that any country which is desirous of treating its BOP transactions by using the fifth edition as opposed to the fourth edition is bound to

encounter significant changes under some of its headings and it is this aspect which will now be addressed with respect to the BOP of Barbados. However in order to gain some understanding of how items will be affected, some knowledge of the fourth edition treatment of items is necessary. Both the current account, and the capital and financial account will be dealt with in this exercise. It is not necessary to discuss the IIP in this section since changes in Barbados' foreign assets and liabilities are still being calculated according to the fourth edition of the Manual. Exceptional financing has not been dealt with separately as recommended.

### **CURRENT ACCOUNT**

#### **Goods**

In Barbados, data on exports and imports are obtained from the Overseas Trade Report published by the Barbados Statistical Service. The external trade statistics are in turn derived from the customs returns and are compiled on the general system of trade. On this system, the national boundary is regarded as the statistical frontier for recording goods entering and leaving the country.

The following items are excluded from the trade statistics:

- (i) gold coin and bullion, issued coinage and issued bank notes;
- (ii) goods on lease;
- (iii) commercial travellers' sample;
- (iv) goods in transit;

- (v) imports and exports of less than \$6 in value.

With regard to exports, coverage adjustments are made for:

- (i) goods exported through the parcel post;
- (ii) the sale of notes, coin and stamps as collectors' items;
- (iii) stocks of goods held overseas by residents;
- (iv) the sale of ships' stores and bunkers.

Items (i) and (ii) are added to exports while items (iii) and (iv) are deducted.

Coverage adjustments to imports are made for:

- (i) unissued currency notes, coins and stamps;
- (ii) outstanding balances on consignment imports; and
- (iii) other adjustments which include ships and aircraft purchased by residents.

Item (i) is added to imports, item (ii) is deducted and item (iii) may be added or deducted.

Freight and insurance on exports are estimated from direct enquiry while freight and insurance on imports are estimated to be 10% and 1% of imports (CIF) respectively.

Under the fourth BOP Manual, a trade deficit of \$920.0 million would have been recorded for the year 1994. This is because the major determinants in this exercise would have been exports valued at FOB prices and imports valued at CIF prices. However with the implementation of the new edition, freight and insurance are omitted from imports so that imports are now recorded on an FOB basis. As far as exports are concerned, in addition to merchandise exports, goods for processing, goods for repairs and goods procured in ports by carriers are included in total exports. The increased exports figures coupled with a significantly lower

imports has now resulted in a much reduced visible trade deficit. Consequently, as table 1 and chart 1 have indicated, there has been a significant improvement in the trade balance, from negative \$1130.0 million to negative \$885.0 million. Indeed from 1979 until 1994, the new treatment of both exports and imports of goods has resulted in an average decline in the visible balance of \$197.1 million, with the steepest fall (\$276.2 million) occurring in 1991. Our attention will now turn to services.

## SERVICES

Every year since 1970, services have earned more foreign exchange than sales of goods which have been domestically produced. Travel has undoubtedly been the major category of the service items, accounting for just over 40% of service inflows. Although the data for this table have remained unchanged with the implementation of the fifth edition, the breakdown of travel into business and personal as recommended by the new manual allows for better analysis of this category. For example, approximately 90% of tourist receipts earned by Barbados comes from personal travel while the remaining 10% falls under business travel. Up until 1993, the United States of America (USA) was the single largest market, accounting for an average of 32.3% of long-stay visitors between 1979 and 1993. However in 1994, the United Kingdom replaced the USA as the single largest market, with arrivals reaching 28.9% of overall arrivals while arrivals from the USA accounted for 25.6%. On the debit side, some 35% of travel undertaken by Barbadians is of a business nature, implying that the majority of travel being undertaken by residents of Barbados was of a personal nature. While tourism services are undoubtedly the major component of the services category for Barbados, one cannot

underestimate the role of non-tourism services since as tourism reaches a level where its rapid growth is limited, then it will be necessary to maximise the foreign exchange potential from other services. The components of non-tourism services will now be addressed, namely transportation, government services and other services.

#### Transportation

Under the fourth edition of the manual, receipts from transportation comprised port disbursements (that is, stores and bunker fuel to ships and aircrafts) and to a lesser extent passenger fares. On the debit side, passenger fares and on some occasions aircraft leasing were the major components. With strong tourism and rising merchandise, one would have expected net earnings from transportation to improve. Indeed when merchandise imports climbed from \$850 million in 1979 to \$1049.1 million in the following year, and tourist expenditure rose by almost \$100 million during the same period, this performance was reflected in an increase in net transportation earnings of some \$41 million. By the end of 1981, during which tourist earnings were sluggish as a result of the international recession, net transportation fell by \$43 million to \$33.3 million (see table 2). However while the period 1983 - 1989 was one in which Barbados experienced economic boom, significant reductions in net transportation were recorded in 1986 and 1987. This was due to the fact that:

- (i) tight macroeconomic policies and sluggish manufacturing activity prevented any rise in commodity imports;
- (ii) high port charges led to a loss of business to neighbouring islands and sluggish receipts from port dues and charges;

- (iii) increased travel by residents was reflected in a \$10.6 million rise in passenger fares which significantly offset any benefits derived.

A positive net transportation balance was always recorded under the fourth edition, mainly due to the earnings of port disbursements which accounted for about 60% of total receipts. However the introduction of the fifth edition led to a substantial adjustment of this table. Firstly, port disbursements (subsequently renamed goods procured in ports by carriers) were excluded from this table. In addition, freight transportation was added to the debit side and replaced passenger fares as the most significant item in that section. These changes resulted in all negative balances for net transportation as table 2 indicates.

#### Government Services (not included elsewhere)

The transactions under this heading occur between the Government of Barbados and non-residents and also between residents of Barbados and agencies of foreign bodies. The importance of this heading was highlighted just after Barbados' independence when a deepening of international links led to a rapid increase in the number of diplomats stationed in Barbados. On the credit side, the most important components of this table are wage payments to local staff by non-residents in addition to the latter's operating expenses in Barbados. On the debit side, the major component is operating expenses by Barbadians overseas. The introduction of the fifth edition has left the statistics of this table unchanged.

### Other Services

This table covers all transactions in services not discussed previously. The fifth edition omits income from this heading since this has now become a new table. Insurance services form a very important part of this table, accounting for some 30% of total credits and approximately 45% of overall debits. Between 1990 and 1995, insurance premiums paid by Barbadians did not fall below \$90 million, mainly due to fact that increases in reinsurance premiums. The role of communication services is equally as important as that of insurance services. In 1979, earnings from communication services totalled only \$12 million but by 1995, this amount had risen to \$50 million. This improvement was due in large measure to the modernization of telecommunications facilities in Barbados, making this country the number one leader in this field regionally. The introduction of the new edition provided an opportunity for more new important items to be highlighted in under this table. The most important of these new items is financial services, for it is under this item that the transactions of offshore companies (which are of extreme importance to Barbados) are captured. As a matter of fact, in 1995, receipts totalling some \$132 million were recorded by Barbados from transactions with this sector. However this matter will be dealt with in more detail in the following section. Another item worthy of mention is computer and information services, earnings of which totalled \$40 million in 1994 and \$45 million last year. It is felt that this sector will be a prime source of employment in the not too distant future.

### Income

Income is a new table under the fifth edition and replaces the investment income table recommended in the previous manual. As a matter of fact, it incorporates all of the investment income items which occurred in the fourth edition but now includes compensation of employees. The investment income table was one in which a negative balance was always recorded. According to Codrington, prior to 1980, these outflows did not create any economic problems given the steady rise in foreign exchange earnings. Thereafter the weakness in the export sectors was accompanied by a marked deterioration in the investment income account which became a major problem for the BOP. Most of the outflows were of a portfolio investment nature, primarily interest payments by Government, which climbed from \$15.7 million in 1979 to \$97.1 million by 1990 and then fell off somewhat to \$70.2 million by 1993. However outflows of dividends and debt service payments by the private sector were also major factors and these grew more than four-fold between 1983 and ten years later.

Under the fifth edition, the income balance continues to be negative since this outcome is determined to large extent by investment income transactions. However the negative balance is not as steep as previously because wage payments earned by Barbadians are significantly higher than payments to non-residents. Between 1989 and 1995, Barbadians earned wages totalling approximately \$24 million from foreigners compared to some \$2 million in wage payments over the same period.

### Current Transfers

Under the fifth edition transfers have been split into current and capital transfers, where only the former is included in the current account. Current transfers consists of all transfers that are not transfers of capital. They directly affect the level of disposal income and should influence the consumption of goods and services. The major consideration with respect to Barbados' BOP is that workers' remittances, highlighted in the standard components of fourth and fifth editions are now included in the tables.. Workers' remittances have accounted for approximately 65% of total private transfer inflows and totalled \$94 million in 1995. Previously this item was subsumed in miscellaneous transfers. Official transfers have generally remained unchanged by the switch to the new edition with the exception of 1994, when the Government of Barbados received debt forgiveness of \$40 million from the Government of Canada. This transaction now falls under the capital account, which together with the financial account we shall now address.

### CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account replaces the capital account which existed under the fourth edition. With the exception of the capital account transaction mentioned in the last paragraph, in which debt forgiveness of \$40 million was granted to the Government of Barbados by the Government of Canada, no other transactions have been recorded in the capital account of Barbados to date. This implies that our attention will be focussed entirely on the financial account in this section.

The financial account of Barbados is shown separately under government, private organisations, commercial banks and the monetary authority. The switch from the fourth to

the fifth edition has left transactions of government, commercial banks and the monetary authority unaffected. Indeed in Barbados, the period 1979 to 1990 was generally dominated by net long-term public sector movements, especially from 1985 until 1989. In 1986 alone, net public sector inflows of \$107.4 million were the highest in five years. On this occasion, Government secured loans in London and Tokyo to the value of some \$105 million.

In the case of private transactions, based on the fourth edition treatment of items, up until 1979, private sector inflows were dominated by direct investment, accounting for some 75% of the total amount but portfolio investment was gaining in importance. From 1980 until 1985, foreign capital inflows assumed massive proportions as rising living standards stimulated a strong demand for energy, sophisticated communications and financial services. Firms associated with these developments attracted significant amounts of foreign capital but less than 20% was now direct investment (see Codrington, 1987). Between 1979 and 1995, portfolio investment accounted for an average of 60% of the total long-term inflows and long-term loans represented 36.2% of portfolio investment. With the introduction of the fifth edition, direct investment has not been affected but long-term loans have been shifted from the portfolio investment category to other investment. As a result of this, portfolio investment flows have been significantly reduced (see table 3 and chart 3) and the ratio of portfolio investment inflows to total long-term inflows has dropped from 60% to a mere 4.1% over the same period.

With the fifth edition, BOP statistics have been obtained for the years 1994 and 1995 respectively with respect to bonds and notes, and money market instruments, new components of portfolio investment, as well as long-term trade credits, a new component of other investment.

Reserves are still being treated in accordance with the fourth edition of the IMF Manual.

### SECTION THREE

#### PROBLEMS ARISING OUT OF THE FIFTH EDITION

Although the fifth edition is intended to improve the presentation of BOP statistics for countries all over the globe, countries will be faced with general and in some cases, specific problems because of their unique circumstances. This section sets out to show some of the problems confronting Barbados since its attempt at publishing BOP statistics, using the fifth edition.

Before examining some of the categories which make up each account, the first problem confronting Barbados is that of data-gathering for previous years. Since the fifth edition was implemented by Barbados only in 1995, data for new items have been collected for only two years. It is therefore dangerous to make any estimates for previous years based on only two years experience. As a matter of fact, this approach was only used by Barbados for the transportation table, since it is widely known in this country that, for example,

earnings by Barbadians from passenger fares are primarily due to ground transport, or that ships are the major provider of transport of goods to Barbados. In other words the data collected for the sub-components of transportation represented a realistic pattern of transportation trends over the past years. In these circumstances, it was fairly simple to estimate data for previous years for these items.

In the current account, data gathering for previous periods was the main problem confronting goods on the export side, especially goods for processing, goods for repairs and non-monetary gold. Imports were unaffected by this development. The problems facing transportation are of a somewhat different nature. Prior to the fifth edition, in the absence of actual data, projections for transportation were based on the relationship between transportation and goods procured in ports by carriers. This relationship can no longer be applied now that goods procured in ports by carriers have been removed from this table. Other services is by far the most problematic table in the current account since it highlights financial services, under which transactions of offshore companies fall. The transactions of offshore companies are becoming increasingly important to Barbados. As a matter of fact there is a school of thought that after tourism, the offshore sector is the second largest foreign exchange earning sector in Barbados<sup>2</sup>.

Unlike the case in countries like the United States of America, the submission of information in Barbados is not mandatory, and moral suasion is used to a great degree in an effort to obtain information from firms and individuals. In addition several of the offshore companies

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are exempt by Barbadian law from divulging information on their operations. The result of BOP surveys in Barbados suggests that these firms have generally not been cooperative in providing information to enhance BOP publications in Barbados. As a matter of fact, over the last five years, only approximately 40% of these firms have submitted information on their BOP transactions. This leads us to a problem of an even more significant nature. Under the fourth edition, offshore companies were treated as non-resident enterprises. This meant that their transactions with residents of Barbados should be reported in the BOP statistics. Under the fifth edition, offshore companies are treated as residents in their country of operation, which means that only their foreign should be reported in the BOP and that transactions with Barbadians should be excluded.

If Barbados decided to slavishly follow the fifth edition in this exercise, the consequences might be severe. For example, it is felt that some of the expenditure undertaken by members of these organisations are included in travel. Therefore if transactions with residents of Barbados are not to be recognized, then the implications are that travel receipts may be overstated. It also implies that any package tours undertaken by these individuals, which should normally be included in passenger fares, should be excluded from this head otherwise, as in the case of travel, an overstatement of passenger fares would result. Another factor that must be taken into consideration is that if transactions from offshore companies are treated according to the recommendations of the new manual, then foreign inflows from these companies will be reflected in errors and omissions. In other words, the quality of Barbados' BOP statistics may

be subject to question. Consequently, Barbados has taken a decision to include the transactions of offshore financial entities in the statistics.

Current transfers have already been defined in this paper and there is no need to repeat it here. This is one of the many areas that has caused problems not only to Barbados but also to several countries. The fifth edition states that if available evidence creates a doubt that a cash transfer should be classified as a capital transfer, the transfer should be classified as a current transfer. Surely this is a clear admission that there will be transactions difficult to determine. In Barbados, the sources of current transfers are exchange control records, and the records on the sale and purchase of postal orders by the Barbados Post Office. However there is insufficient information on the recipient's use of the transfer. In terms of cash, the question which must be asked is "below what level is it reasonable to classify a cash transfer as a current transfer in the absence of relevant information?" This is surely a most difficult problem to face. The major component of current transfers in Barbados is workers' remittances but one is not certain whether any one of these inflows is of a capital nature. At present, the Eastern Caribbean Central Bank (ECCB), which has responsibility for BOP statistics of the Organisation of Eastern Caribbean States (OECS) uses an intuitive process in this exercise, treating 80% of total transfers as current transfers.

The capital and financial account presents problems to Barbados which are equally as interesting as the current account. With regard to debt forgiveness, one must be careful not

to confuse this with debt written off which does not enter into BOP statistics but is included in the IIP.

As far as migrant transfers are concerned, in Barbados, these would include personal effects, household effects, used professional apparatus and flat rate non-commercial items which at present are subsumed in exports and imports. There should be no difficulty in extracting this information for the future. However the main problem arises with respect to financial items. For example, if an individual in country A is migrating to Barbados, and owes the bank in country A some Y million dollars. While the individual is residing in country A, this is not a BOP transaction. However when this individual takes up residence in Barbados, this loan becomes a foreign liability for Barbados. These entries would be very difficult to detect and it is virtually impossible to think of any way by which these transactions could be captured. The result of such problems is that there is a real possibility of understating foreign liabilities in the capital account of the BOP.

As far as the acquisition and/or disposal of non-produced non financial assets are concerned, let us assume that a foreign embassy purchases a property in Barbados. One difficulty which may arise here is that if it is difficult to obtain a breakdown of the cost of the land and the structure, then a decision as to whether this transaction should be included under the above heading or under government services may not be an easy one.

The financial account, as we mentioned earlier, is broken down into direct investment, portfolio investment and other investment. With regard to direct investment, it is possible that Barbados may have been misclassifying direct investment, for example, with respect to branches. An example of this is as follows: Suppose a firm in the USA has a direct investment relationship with a resident firm in Barbados but the same relationship does not hold for the resident firm in Barbados. If the US firm loans \$200 million to the firm in Barbados, this is recorded as a liability under direct investment in Barbados. If at some given point during the same period, a loan of \$100 million is made by the Barbados firm to the US firm, Barbados usually reports this transaction as an asset under direct investment abroad. However this should be deducted from direct investment in Barbados since the resident firm in Barbados does not have a direct investment relationship with the US firm.

Portfolio investment comprises equity securities and debt securities. In the case of equity securities, the fifth edition requires information on these instruments from monetary authorities, general government, banks and other sectors. Under the new edition, debt securities are decomposed into bonds and notes, money market instruments and financial derivatives, with each of these three items broken down by institutional sector as in the case with equity securities. The main difficulty here is that, as is the case with several developed and developing countries, Barbados holds the view that the guidance in the manual with regard to the treatment of financial derivatives should be improved.

One point which may become an area of concern over the next few years relates to the treatment of foreign assets. An asset is considered foreign for BOP purposes when the holder and the counterpart are in different economies. At present Jamaica allows foreign debt securities to be purchased by both locals and nationals alike. While some firms are allowed to hold foreign accounts in Barbados, if such a policy was extended to the population at large, then problems might arise in determining the transactions which should be entered in the BOP.

#### THE INTERNATIONAL INVESTMENT POSITION

As stated earlier, the international investment position is the balance sheet of a country's stock of external assets and liabilities. According to a report by the Statistics Department of the IMF on the progress made by selected countries, most of the industrial countries canvassed now publish international investment data and report them to the Fund but only a few compile the data in a manner consistent with the new guidelines. Most of the developing countries canvassed do not now report international investment position data to the Fund. Barbados is one of the developing countries which falls into the latter category.

At present the BOP survey forms for this country take into consideration the value of the assets/liabilities at the beginning of the year, transactions during the year and value of assets/liabilities at the end of the year. However the important fact to note here is that these

transactions are recorded in Barbados currency and as a result it is impossible to detect any price or exchange rate changes. In order that the exchange rate problem may be overcome, a good starting point for Barbados is that the survey forms be adjusted to capture the initial values of assets/liabilities, transactions and end of the year values of these items in foreign currency. As long as the foreign values are known, their conversion into Barbados dollars would make it easier to determine what changes would have come about by transactions and exchange rate changes. Price changes would have to be captured on the survey form by trying to establish market values between two periods and the same time span would apply to other changes. This would require firms to capture each individual transaction in foreign currency at the going exchange rate. This may result in a further lack of cooperation from firms since the level of work required is even more involved.

#### SUMMARY AND CONCLUSION

This paper has attempted to examine the issues and problems encountered by Barbados in the implementation of the fifth edition of the IMF manual. The main benefits of implementation to date is the highlighting of the sub-components of several items, since this allows readers the opportunity to observe the main actors in any transactions. However as the paper has shown, there are several problems which face Barbados, some of which may take lengthy periods before a solution is reached. The major problem facing

Barbados at present relates to the offshore sector. The earnings of this sector are very crucial to Barbados as a whole and to treat these firms as residents as prescribed in the manual will not make transparent the revenue from financial services. Several current account projections in Barbados are made either by historical trends or with the use of time regressions. These projections now need to be revised as a result of the adjustment to several changes in the respective balances.

One of the main problems facing Barbados is the generation of new information especially for past years both in the current and capital and financial accounts. As far as financial account movements are concerned, business firms, public utilities excepted, are less forthcoming with such information than public sector organisations. This is a worrisome factor especially in the view that as the years roll on, Barbados may be subject to increasing liberalization of capital controls. Such an approach by firms will lead to a lack of reliable data which will not only affect the financial account but also the international investment position. In spite of the problems, efforts are being made to ensure that with the passage of time, several of the issues will be solved successfully and Barbados' BOP will bear an even closer resemblance to the requirements of the fifth edition.

## NOTES

- (1) See IMF Manual, 5th edition, paragraph 79.
- (2) In 1995, earnings from offshore transactions were second only to tourist receipts which increased by \$156 million.

## APPENDIX

New Item	Formerly
Goods Procured in Ports by Carriers	Stores and Bunkers
Goods for Processing	Part of General Merchandise
Goods for Repairs	Part of General Merchandise
Freight Transportation	Part of General Merchandise
Merchandise Insurance	Part of General Merchandise
Compensation of Employees	Personal Income (Labour Income)
Construction Services	Part of Miscellaneous Services
Computer and Information Services	Part of Miscellaneous Services
Financial services	Part of Miscellaneous Services
Merchanting	Nil
Life Insurance and Pension Funds	Non-merchandise Insurance (Premiums and Claims)
Personal, Cultural and Recreational	Part of Miscellaneous Services
Income on Debt	Interest on Government Transactions - Portfolio Investment
Workers Remittances	Part of Private Transfers
Debt Forgiveness	Part of Official & Private Transfers
Equity Securities	Long-Term Securities
Debt Securities	Nil
Money Market Instruments	Nil
Financial Derivatives	Nil
Migrant Transfers	Part of Current Account
Acquisition/Disposal of Non-produced Non-financial Assets	Part of Capital Account

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TABLE 1  
 VISIBLE TRADE DEFICIT  
 Bds \$ M

Year	4th Edition	5th Edition
1979	-565.7	-450.7
1980	-687.4	-509.3
1981	-825.1	-674.3
1982	-689.6	-503.5
1983	-703.4	-505.5
1984	-641.6	-439.9
1985	-612.2	-417.6
1986	-676.6	-495.3
1987	-751.9	-588.8
1988	-864.2	-677.9
1989	-1060.6	-832.9
1990	-1089.6	-817.4
1991	-1108.5	-832.3
1992	-736.9	-555.6
1993	-837.8	-653.4
1994	-920.0	-709.5
1995	-1130.0	-885.0

Source: Balance of Payments of Barbados

TABLE 2  
 NET TRANSPORTATION  
 Bds \$M

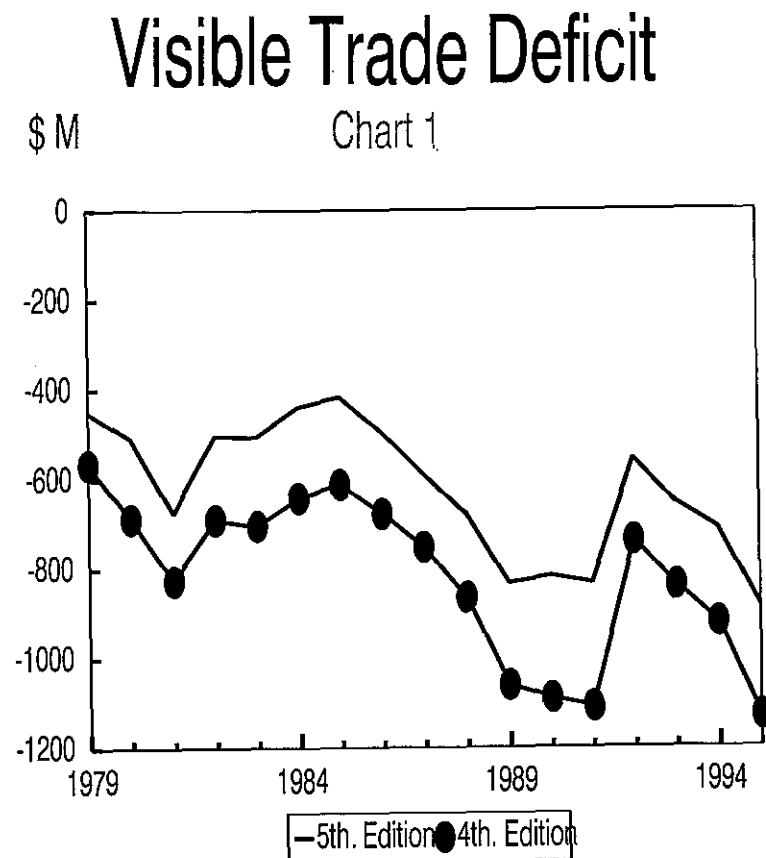
Year	4th Edition	5th Edition
1979	35.7	-59.4
1980	76.8	-77.4
1981	33.3	-98.3
1982	71.0	-93.8
1983	71.6	-100.7
1984	72.3	-101.4
1985	76.0	-94.6
1986	37.0	-132.9
1987	14.4	-144.3
1988	19.3	-154.1
1989	25.5	-181.7
1990	80.5	-178.3
1991	80.0	-173.9
1992	24.7	-138.4
1993	12.3	-154.8
1994	3.3	-165.7
1995	12.7	-201.0

Source: Balance of Payments of Barbados

TABLE 3  
 PORTFOLIO INVESTMENT INFLOWS  
 Bds \$M

Year	4th Edition	5th Edition
1979	-0.6	0.0
1980	27.6	9.6
1981	84.4	1.5
1982	33.2	-6.6
1983	26.9	-0.7
1984	24.5	-0.5
1985	41.7	0.2
1986	16.7	0.2
1987	16.3	0.4
1988	-26.6	0.7
1989	-32.4	0.8
1990	42.3	0.0
1991	80.6	-1.3
1992	30.8	0.0
1993	19.9	1.8
1994	73.3	6.5
1995	-2.3	0.0

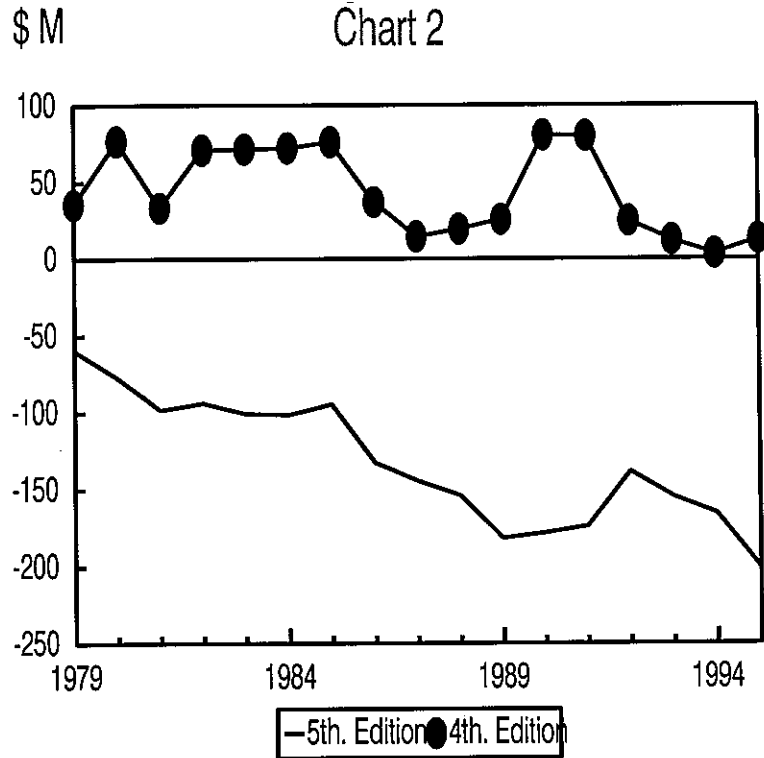
Source: Balance of Payments of Barbados



Source: Central Bank of Barbados

# Net Transportation

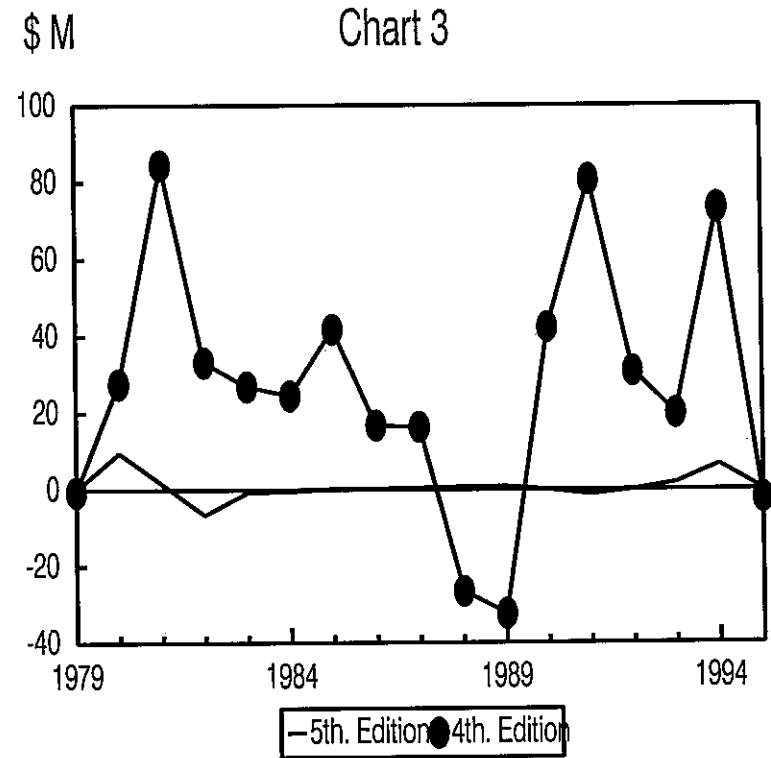
Chart 2



Source: Central Bank of Barbados

# Portfolio Investment Inflows

Chart 3



Source: Central Bank of Barbados

