

## Balance of Payments - Methodology

The balance of payments summarises economic and financial transactions between residents and non-residents of Romania with the rest of the world during a specific time period. It consists of the goods and services account, the primary income account, transfers without a quid pro quo (donations, grants and the like), as well as financial claims and obligations. Its main items are the *current account*, the *capital account*, and the *financial account*.

- a. **The national legal framework:** (i) Law No. 312/2004 on the Statute of the National Bank of Romania: the National Bank of Romania is legally empowered to compile the balance of payments (Article 9 para. (2)); (ii) Law No. 226/2009 on the organisation and functioning of official statistics in Romania: (Article 6 paras. (3)–(5)); (iii) Regulation No. 4/2014 on reporting statistical data and information to the National Bank of Romania, including subsequent amendments and additions (Regulation no. 6/2015 and Regulation no. 6/2016).
  - b. **The international legal framework:** (i) Commission Regulation (EU) No 555/2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions; (ii) ECB Guidelines No 23/2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics;
  - c. **The international methodological standard** on balance of payments compilation is ensured by the IMF's sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. In order to ensure consistence between international macroeconomic statistics, the BPM6 was prepared in line with the revised OECD Benchmark Definition of Foreign Direct Investment (2008 Benchmark Definition) and the System of National Accounts (2008 SNA);
  - d. **Data sources:** (i) sample-based or comprehensive direct statistical surveys: quarterly survey on International trade in services (CIS); quarterly and annual survey on Foreign direct investment (ISD); quarterly survey on Financial information related to non-residents (IFRN); monthly direct reporting of resident banks transactions with non-residents (ii) administrative sources.
- e. **Concepts and definitions:**

### I. Current account

The current account reflects the provision or acquisition of real resources by the Romanian economy to or from the rest of the world, as well as unilateral transactions, without a quid pro quo.

On the credit side, transactions show the part of the reporting economy's domestic product supplied to other economies (exports of goods and services), income from using factors of production in foreign production process (compensation of employees and investment income) as well as the receipt of real or financial resources from abroad without a quid pro quo.

On the debit side, transactions show acquisition of goods and services from abroad (imports), income owed to nonresidents for using their factors of production, granting real or financial resources to non-residents without a quid pro quo.

**I.1. Goods** - shows the value of movable goods that are subject to a change in ownership between residents and nonresidents, irrespective of whether the goods cross the country border or not. Unlike the Statistics on International Trade in Goods compiled by the NIS, as there is no change in economic ownership, the balance of payments does not record the goods to be processed in Romania and abroad respectively.

**I.1.1. General merchandise** - shows exports and imports of goods that are subject to a change in economic ownership between residents and non-residents and cross the country border. Data are recorded at FOB values. Imports FOB are calculated by the NBR based on the CIF/FOB conversion factor set by the NIS.

**I.1.2. Merchanting** - is defined as the purchase of goods by a resident (of the compiling economy) from a non-resident combined with the subsequent resale of the same goods to another non-resident without the goods being present in the compiling economy. Acquisition of goods is recorded as negative exports of goods. Sale of goods is recorded as positive exports of goods. The difference between the selling price and the acquisition price is shown in "net exports of goods under merchanting". Transactions are recorded at market values.

**I.2. Services** - are the result of a production activity that changes the conditions of the consuming units (natural entities, legal entities or economic goods), or facilitates the exchange of products or financial assets.

**I.2.1. Manufacturing services on physical inputs owned by others** - covers the goods for processing, assembly, labelling by an entity that does not own the goods concerned. It reflects the net value of processing services (which may

include the costs for acquiring materials by the service provider).

**I.2.2. Maintenance and repair services** - refers to maintenance and repair work by residents on goods that are owned by non-residents (and vice versa). Repairs and maintenance on ships, aircraft, and other transport equipment are included in this item. Construction maintenance and repairs as well as maintenance and repairs of computers are excluded.

**I.2.3. Transport** - is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. It includes postal and courier services. Transport can be classified according to: mode of transport and what is carried (passengers, freight, other auxiliary services – uploading, downloading, storage etc.).

**I.2.4. Travel** - credits cover the value in exchange for tourist services supplied to non-residents during visits to Romania and outside Romania and travel debits cover the value in exchange for tourist services provided to Romanian nationals outside Romania. The item includes business travel such as training courses, business meetings, conferences, events, etc. Another breakdown of travel shows: accommodation services, food-serving services, local transport services, cultural activities, recreational services, travel arrangements, goods and services acquired by persons during their stays abroad (e.g., souvenirs, provision of access to the Internet in hotels, etc.), health- and education-related services involving conveyance of customers (patients, students) from the home country to the host country.

**I.2.5. Construction** - refers to the total value of construction works carried out over less than one year. It records on a gross basis the creation, renovation, repair, or extension of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams and so forth.

**I.2.6. Insurance and pension services** - include services of providing direct insurance, reinsurance, and auxiliary services, pension fund services. The value of these services is linked to the fees included in the premiums, not the premiums themselves.

**I.2.7. Financial services** - cover financial intermediary and auxiliary services, except insurance and pension fund services. They include both services charged for by explicit charges and financial intermediation service charges indirectly measured, abbreviated as FISIM.

**I.2.8. Charges for the use of intellectual property** - include charges for the use of proprietary rights that can arise from research and development as well as from marketing activities (patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises) as well as charges for licenses to reproduce or distribute (or both) intellectual property, and related rights.

#### **I.2.9. Telecommunications, computer, and information services**

*Telecommunications services* encompass the transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, e-mail, facsimile, and so forth, including business network services, teleconferencing, and support services. Also included are mobile telecommunications services, Internet backbone services, and online access services, including provision of access to the Internet.

*Computer services* consist of hardware- and software-related services and data-processing services. Also included are hardware and software consultancy and implementation services; maintenance and repairs of computers and peripheral equipment; data recovery services, provision of advice and assistance on matters related to the management of computer resources; analysis, design, and programming of systems ready to use (including web page development and design), and technical consultancy related to software; licenses to use non-customised (mass-produced) software; the development, production, supply, and documentation of customised software, including operating systems made to order for specific users; systems maintenance and other support services, such as training provided as part of consultancy; data-processing services, such as data entry, tabulation, and processing on a time-sharing basis; webpage hosting services; and computer facilities management.

*Information services* comprise news agency services as well as other information provision services: database services (database conception, data storage, and the dissemination of data and databases, including directories and mailing lists) both online and through magnetic, optical, or printed media; and web search portals. They also include direct non-bulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission, or other means; other online content provision services; and library and archive services. Downloaded content that is not software (included in Computer Services) or audio and video (included in Audio-visual and related services) is included in information services.

**I.2.10. Other business services** - covers research and development services, professional and management consulting services, technical, trade-related, and other business services.

**I.3. Primary income** - shows the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources, as reflected by the flows between resident and non-resident institutional units.

**I.3.1. Compensation of employees** - presents remuneration in return for the labour input to the production process contributed by an individual in an employer-employee relationship over a period less than one year.

**I.3.2. Investment income** - is derived from the provision/use of financial assets in a resident-non-resident relationship. It includes income from capital participations (dividends, reinvested earnings) and claims (interest). Investment income is classified according to the type of investment: direct investment income, portfolio investment income, other investment income and income on reserve assets. For the definitions of the types of investment, see the financial account.

**I.3.3. Other primary income** - classifies income by institutional sector of the reporting economy (general government or other sectors) and includes taxes on production and imports and subsidies on products and production.

#### **I.4. Secondary income**

Encompasses current transfers between residents and non-residents. A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other non-produced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value. Current transfers consist of all transfers that are not capital transfers.

Current transfers are classified by the institutional sector providing or receiving the transfer: general government or other sectors.

Current transfers of the general government comprise current taxes on income, wealth etc., social contributions, social benefits, current international cooperation, miscellaneous current transfers and the contribution to the EU budget (calculated based on value added tax and gross national income).

Current transfers of other sectors include current taxes on income, wealth etc., social contributions, social benefits, net non-life insurance premiums, non-life insurance claims, miscellaneous current transfers (personal transfers between resident and non-resident households, including workers' remittances).

**II. Capital account** covers acquisition and disposal of non-produced, non-financial assets between residents and non-residents and capital transfers.

#### **II.1. Acquisition and disposal of non-produced, non-financial assets**

Non-produced, non-financial assets consist of: natural resources, contracts, leases, and licenses and marketing assets (trademarks) and goodwill. This item records only acquisition and disposal of such assets, not their use.

**II.2. Capital transfers** consist in changes in ownership over fixed assets, transfers of funds connected to or conditional on the acquisition or disposal of a fixed asset and the cancellation of liabilities by the creditors without a quid pro quo. Capital transfers can be made in cash or in kind (such as debt forgiveness). The distinction between current transfers and capital transfers is, actually, the use of the transfer by the recipient country. Capital transfers are classified according to the initiating or receiving institutional sector of the transfer in the reporting economy: general government or other sectors. Capital transfers include: (i) capital taxes; (ii) capital transfers for investment and (iii) other capital transfers.

#### **III. Financial account**

The financial account records net transactions that involve financial assets and liabilities and that take place between residents and non-residents. The net acquisition of financial assets is the difference between the acquisition of assets less reduction in assets, while the net incurrence of liabilities is determined as the difference between the incurrence of liabilities less reduction in liabilities.

Based on the functional category, the financial transactions are classified as: (i) direct investment; (ii) portfolio investment; (iii) financial derivatives; (iv) other investment and (v) reserve assets.

#### **III.1. Direct investment**

Direct investment implies a long-term investment relationship between a resident and a non-resident entity; it usually involves a significant degree of influence exerted by the investor on the management of the enterprise in which he has invested.

The direct investment components are: equity, namely the paid-up capital and the reserves related to a non-resident investor holding at least 10 percent of the subscribed share capital of a resident enterprise, the related reinvested earnings, as well as debt instruments (e.g., loans) between the investor or the group to which the investor belongs and the enterprise in which he has invested.

Equity in resident enterprises on which a non-resident investor has indirect significant influence is also considered direct investment. This includes equity in the resident subsidiaries and associates of a resident enterprise in which a non-resident investor holds at least 10 percent of the subscribed share capital.

**III.2. Portfolio investment** is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Portfolio investment includes securities such as equity, investment fund shares and debt instruments, except when they are classified either as direct investment or reserve assets.

### **III.3. Financial derivatives**

A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets. This category is identified separately from the other categories because it relates to risk transfer, rather than supply of funds or other resources. Unlike other functional categories, no primary income accrues on financial derivatives.

**III.4. Other investment** is a component that consists of transactions other than those included in direct investment, portfolio investment, financial derivatives and reserve assets.

**III.4.1 Equity other than that related to direct investment and portfolio investment** reflects the participation in the capital of some international organisations, as well as the less than 10 percent participation in the share capital of quasi-corporations.

**III.4.2. Currency and deposits** include currency in circulation and deposits. Deposits are standard, non-negotiable contracts, generally offered by deposit-taking corporations, allowing the placement and the subsequent withdrawal of an amount of money by a creditor.

**III.4.3. Loans** include all loans, including mortgage loans, financial lease and repos. All repurchase agreements are considered collateral loans, rather than simple sales/purchases of securities and are recorded under other investment.

**III.4.4 Insurance, pension and standardized guarantee schemes** - include external assets and liabilities related to financial instruments, such as general insurance technical provisions, rights on life insurance and rents, pension rights, pension fund rights on the administrators of the pension funds, rights to benefits, other than pensions, as well as the provisions for the execution of the standardized guarantees;

**III.4.5. Trade credit and advances** are financial claims arising from credit extended directly by the suppliers of goods and services to their customers and advances for work that is in progress or is yet to be undertaken. Trade credit and advances arise when payment for goods or services is not made at the same time as the change in ownership of a good or provision of a service.

**III.4.6 Other accounts receivable/payable** - include financial assets/liabilities, other than loans and trade credits and advances, which arise due to the time lag between the moment when an obligation to make a payment arises and the moment when it is settled. Included are the amounts receivable / payable related to taxes, wages, dividends and social contributions that have been accumulated but not yet received/paid.

**III.4.7. SDR allocations** received by IMF members are recorded as the recipient's liabilities under other investment, with a corresponding entry under reserve assets.

**III.5. Reserve assets** are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets, claims on non-residents and assets that actually exist.

## **Residents**

- Natural entities – Romanian, foreign and stateless citizens residing in Romania, as attested by identity documents issued according to the law;
- Legal entities and any other entities headquartered in Romania, as well as natural entities, Romanian, foreign and stateless citizens residing in Romania, which are authorised and/ or registered to operate in Romania independently, according to the legal regulations in force;
- Branches, agencies, representative offices, offices of foreign legal entities or other foreign entities, registered and/ or authorised to operate in Romania; and

- Embassies, consulates and other permanent representative offices and missions of Romania abroad.

**Non-residents**

- Natural entities – foreign, Romanian and stateless citizens residing abroad, as attested by identity documents issued according to the law;
- Legal entities and any other entities headquartered abroad, as well as natural entities, foreign, Romanian and stateless citizens residing abroad, which are authorised and/ or registered to operate abroad, independently, according to the legal regulations in force;
- Branches, agencies, representative offices, offices and any other undertakings of Romanian legal entities or other Romanian entities registered and/ or licensed to operate abroad; and
- Embassies, consulates and other permanent representative offices and missions of other countries in Romania, as well as international organisations or representative offices of such organisations operating in Romania.