



SOURCES AND METHODS

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION

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PREFACE

This is the first time a Balance of Payments (BOP) and International Investment Position (IIP) Sources and Methods for Fiji has been compiled and is being published.

The publication describes the conceptual framework of Fiji's BOP and IIP statistics and the data sources and methods used to compile them. It is prepared with the intention to explain to the users of these statistics how the BOP and IIP statistics are produced, what they measure and how they may be interpreted.

The statistics on BOP and IIP are compiled in accordance with the latest international standards in the International Monetary Fund (IMF) Balance of Payments Manual, 5th edition (BPM5).

With the growing interest in Fiji's BOP position, foreign investment and debt levels, meaningful and quality data are needed by domestic and international users. It is therefore hoped that the information contained in this report will be of assistance to the policy makers, researchers, analysts and international organisations.

Your comments and suggestions on the compilation guide are welcome.

T Bainimarama
Government Statistician

ACKNOWLEDGEMENT

The Pacific Financial Technical Assistance Centre not only assisted with the transition of the BOP compilation based on the BPM4 to BPM5, but also provided support through the IMF in reviewing the compilation procedures and suggesting refinements.

This publication is a culmination of joint efforts made by the Reserve Bank of Fiji and the Fiji Islands Bureau of Statistics.

To all of you who have helped compile this publication, I extend to you my sincere gratitude.

KEY TO ABBREVIATIONS

In alphabetical order:

Abbreviation	Terms
BOP	Balance of Payments
BPM4	Balance of Payments Manual, 4 th edition, IMF
BPM5	Balance of Payments Manual, 5 th edition, IMF
c.i.f.	Cost, insurance, freight
EU	European Union
FISIM	Financial Intermediation Services Indirectly Measured
f.o.b.	Free on board
IIP	International Investment Position
IMF	International Monetary Fund
IVS	International Visitor Survey
MOFNP	Ministry of Finance and National Planning
MOT	Ministry of Tourism
OET	Overseas Exchange Transactions
PFTAC	Pacific Financial Technical Assistance Centre
RBF	Reserve Bank of Fiji
SAS	Systematic Analysis of Statistics
SDR	Special Drawing Rights

NOTES TO THE REPORT

- **Values**
All values given are in Fiji dollars.
- **Rounding procedures**
Values are rounded off to the nearest million dollars.
- **Source**
All data are compiled by the Fiji Islands Bureau of Statistics, except where otherwise stated.
- **Symbols**
The interpretation of the symbols used in this report is as follows:
 - nil or zero

 - r revised
 - p provisional

 - R receipts
 - P payments
- **Suggested readings**
 1. **Compilation guides published by FIBOS**
 1. International Investment Statistics
 2. International trade in Services
 3. Statistics on Non-Profit Organisations

 2. **Overseas Merchandise Trade Statistics** - these are published annual trade reports
- **Table numbers**
Tables in the report are not in serial order but according to chapters eg Table 2.1 will refer to Chapter 2, Table 1.

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CHAPTER 1

INTRODUCTION

BOP

Fiji's BOP statistics measure the payment flows between Fiji and all other countries (rest of the world). It is made up of the current account, capital account and financial account. It systematically summarises all international economic transactions for Fiji, for a specific period. Economic transactions include:

- exports and imports of goods such as food and beverages, industrial supplies, fuels and lubricants, machinery, vehicles, clothing, raw materials;
- exports and imports of services such as international transport, travel and business services;
- income flows such as interest and dividends earned by Fiji citizens investing abroad and foreigners on investment in Fiji;
- financial flows such as investment in shares, debt securities and loans; and
- transfers, which are offsetting entries to any one sided transactions listed above such as foreign aid and funds brought by migrants.

IIP

The IIP was introduced the BPM5. The IIP shows the level (or stock) of foreign investment into Fiji and Fiji's investment abroad. The difference between foreign investment into Fiji and Fiji's investment abroad is Fiji's net IIP. This is discussed in detail in Chapter 11 B.

Users and uses of BOP and IIP statistics

A wide spectrum of data users need information about BOP and IIP concepts, sources and methods. This ranges from users with broad general needs to those with highly specialized needs. Some of the key users with their data uses are as follows:

- Students/teachers – for a broad understanding of the conceptual framework, supplement to theoretical concepts, and to gauge Fiji's economic relationship with the rest of the world.
- Financial sector economists, national and international investors, international rating agencies – a reasonably detailed understanding of the conceptual framework, interpretation of the data, and comparison over previous period, so as to advice their organisations and clients.
- Media – for describing Fiji's economic performance in their respective news articles.
- International agencies such as the International Monetary Fund (IMF) – for monitoring country performance, adherence to international standards and practices, compilation of world economic statistics, and for preparation of country reports.
- Academic researchers – For general economic research, for econometric modeling, research and support analysis or economic interpretations.

- Reserve Bank of Fiji and the Government – for monitoring BOP performance (foreign debt, imports, tourism inflows etc) so as to formulate appropriate monetary and fiscal policies.

International Statistical Standards

Fiji has always attempted to follow the international standards relating to the BOP and IIP statistics. There are several reasons for this:

- first, domestic and foreign analysts are assured that Fiji's BOP and IIP statistics comply with objective, coherent international standards that reflect current global analytical needs;
- second, Fiji is part of the international community and international users need comparable data sets for comparison between countries;
- third, as a member of the IMF Fiji needs to submit its economic statistics data in conformity with the standards set out by the IMF; and
- fourth, a consistent method of data validation is required so as to compare and reconcile Fiji's data with those of other countries.

CHAPTER 2

CONCEPTUAL FRAMEWORK

Balance of Payments

Fiji's BOP is a statistical statement that comprises of :

- current account, which records transactions in goods, services, income and current transfers with the rest of the world;
- capital account, which records capital transfers and the acquisition/disposal of non-produced non-financial assets; and
- financial account, which records transactions involving Fiji's claims on assets, and liabilities to, non-residents.

The conceptual framework of the Fiji BOP statistics is based on the Balance of Payments Manual, 5th edition (BPM5) of the IMF. Until 2002 Fiji used the 4th edition of the manual. BPM5 was implemented in 2003 by FIBOS, and data from 2000 onwards were revised as per this manual.¹

International investment position

The IIP is related to the BOP financial account, and was introduced in the BPM5. BOP measures transactions (flows), whilst the IIP measures the level (stock) of assets and liabilities held at particular points in time.

Relationship between Fiji's Balance of Payments and International Investment Position

The IIP shows the opening and closing balances of stocks of investment. The changes in these balances are reconciled in the IIP. Financial transactions in the reconciliation statement are equivalent to the transactions measured in the financial account of the BOP. Table 2.0 illustrates this. The column represents the BOP whilst the row represents the IIP. Common to both is the financial account of BOP (shaded area), which in the IIP is referred to as transactions. The IIP shows the changes in Fiji's IIP arising from these transactions, and from other changes such as price changes, exchange rate changes and other adjustments.

¹ The BPM5 could not be implemented earlier, due to resource constraints faced by FIBOS.

Table 2.1: Relationship between BOP & IIP

		Balance of Payments CURRENT ACCOUNT Goods: Credits and Debits Services: Credits and Debits Income: Credits and Debits Current Transfers: Credits and Debits Balance on Current Account CAPITAL ACCOUNT Capital transfers Acquisition/disposal of non-produced, non-financial assets Balance on Capital Account		
International Investment Position	Position at the beginning of period Fiji Investment Abroad Direct investment Portfolio investment Other investment Reserve assets Foreign Investment in Fiji Direct investment Portfolio investment Other investment Net International Investment Position	FINANCIAL ACCOUNT Transaction changes Direct investment Abroad In Fiji Portfolio investment Assets Liabilities Other investment Assets Liabilities Reserve assets Balance on Financial Account		
			Other changes in position reflecting	Position at the end of period
			Price change	Fiji Investment Abroad
			Exchange rate changes	Direct investment Portfolio investment Other investment
			Other adjustments	Reserve assets
				Foreign Investment in Fiji
	Direct investment Portfolio investment Other investment			
		Net Errors and Omissions (The sum, with sign reversed, of the balances on the current, capital and financial accounts)		

Double entry system

Conceptually, an economic transaction has two sides: something of economic value is provided and something of equal value is received. The double entry recording system of BOP reflects this. For example, when an exporter sells goods (eg fish) to a non-resident, the exporter receives a financial asset (either cash or trade credit claim) in return. The export is represented by a credit entry and the financial asset acquired is represented by an offset debit entry. An understanding of the double entry recording system is necessary for a complete understanding of the BOP statistics.

Table 2.2: The conventions for the double entry recording system

Credit entries	Debit entries
Exports of goods and services	Imports of goods and services
Income accruing to residents from non-residents	Income accruing to non-residents from residents
Transfers offsetting debit entries	Transfers offsetting credit entries
A reduction in an economy's foreign assets, or an increase in foreign liabilities	An increase in an economy's foreign assets, or a reduction in foreign liabilities

Table 2.3: Examples of the double entry recording system

	Credit	Debit
1. A container of taro is exported (value 300) to New Zealand and payment is received for this.		
Goods	300	
Foreign currency assets, bank deposits		300
2. Mineral fuel (value 500) is imported from Singapore and payment is made.		
Goods		500
Foreign currency assets, bank deposits	500	

Errors and Omissions

In principle, under a double entry accounting system, the net sum of debit and credit entries should equal zero. In practice this does not happen since data for the BOP estimates are derived from different sources and as such some transactions are not measured accurately (errors) and some are not measured at all (omissions). There may also be timing and valuation differences in the recording of the BOP transactions. Therefore in order to ensure that the net sum of the credit and debit entries is zero, a balancing item reflecting the errors and omissions is included in the financial account as the “Net Errors and Omissions”.²

Concepts of Territory and Residence

In compiling Fiji’s BOP and IIP statistics, the Fiji economy is conceived as comprising the economic entities that have a closer association with the territory of Fiji than with any other country. Such economic entities are described as a resident of Fiji. The others are regarded as non-resident. Fiji territory is defined to include the territories lying within its political frontiers and territorial seas and in the international waters over which it has exclusive jurisdiction.

The residents of Fiji include:

- Resident general government agencies like all government departments, local government, Fiji embassies and consulates located overseas.
- Resident financial and trading enterprises, which include all enterprises engaged in the production of goods and services on a commercial or equivalent basis. Resident enterprises include branches of foreign companies operating in Fiji.
- Resident non-profit bodies like the charitable organizations, business organizations e.g. chambers of commerce and churches.

² Under BPM4, the empirical rule of thumb was that a net errors & omissions in excess of 5 percent of the gross sum of merchandise exports and imports was a cause for concern. While the relevance of such a measure has diminished since the fourth edition was published in the 1970’s, it still gives some indication of accuracy. FIBOS, attempts to capture as much data within its vicinity, so that all data are appropriately shown in the respective accounts, and do not spill over as errors & omissions. The BOP review project conducted by FIBOS from May 2007 to November 2007 has helped reduce the errors and omissions by around 60%.

- Resident households and individuals residing in Fiji for one year or more and whose center of interest is considered to be Fiji. Fiji's diplomatic and consular representatives, armed forces and students studying abroad are considered Fiji residents.

Special cases under the concepts of residency are:

- Only a resident of the country where the land is situated can own land. Therefore the implication for BOP recording is that the non-resident owner is considered to have a financial investment (equity) in a notional resident enterprise, which in turn acquires ownership of land. Such a transaction would be construed as an increase in foreign investment in the country in which the land is situated. The exception to this rule concerns land purchased or sold by a foreign embassy. This is because the land shifts from one economic territory to another and is thus included in the sale or purchase of non-produced, non-financial assets.
- The inclusion of any mobile equipment e.g. aircraft, ships depends on whether they are purchased outright or financially or operationally leased. If they are purchased outright, they are regarded as being resident and the value is included in merchandise flows.
 - A financial lease is one in which all the risks and benefits associated with the ownership of an asset are transferred to the lessee, whether or not the title to the asset is actually transferred. In such cases the mobile equipment is regarded as being acquired by a resident and an ownership change is imputed. The value is included in merchandise flows.
 - An operational lease is one in which there is an agreement to use assets for a specified period of time in exchange for rent. The risks and benefits remain with the lessor. No change of ownership occurs and none is imputed. The lease payment is included under other business services.

Valuation

To be useful in analysis, and to provide meaningful indicators of economic activity, it is important that BOP and IIP statistics carry value that has economic meaning. It is also important, given the double entry accounting system used, that a uniform valuation is adopted. This means that the credit and debit entries of each transaction, which in practice may be derived from independent sources, should be valued at the same price. In addition, a uniform valuation is essential to sum different types of transactions on a consistent and comparable basis. The use of uniform valuation principle aids understanding by users. Moreover, statistics for different countries will not be comparable unless both parties to a transaction adopt the same valuation principle. It is also important to use a principle that is consistent with the national accounting principle. For all these reasons, market price is used for valuing transactions.

Market price is the amount of money that a willing buyer pays to acquire something from a willing seller, when such an exchange is between independent parties and involves only commercial considerations. In absence of this price a very close approximation will be used and this valuation is known as the transactions price. Transaction price is the price at which a transaction is recorded in the accounts of the transactors.

Transactions and stock positions originally denominated in foreign currencies are converted to Fiji dollars using exchange rate prevailing at the time of the transaction (BOP) or at a reference date (IIP). Transactions are converted at the midpoint of the buying and selling exchange rates applying at the time of the transaction. Stocks are converted at the buying and selling exchange rates applying at the beginning or end of the period³.

Time of Recording

The time of recording of transactions in BOP and IIP statistics is the time of the change of ownership. Under the double entry system, both sides of the transactions are recorded at the same time and this is consistent with the accrual accounting system. Change of ownership occurs when legal ownership of goods change, services are rendered and when income accrues. In the case of transfers that are imposed by one party on another eg taxes, they are recorded at the time the transaction occurs which gives rise to the liability to pay. For financial transactions it is the time when the transactions are recorded in the books of accounts.

There are certain cases when the change of ownership does not occur, but for BOP purposes they are considered to have occurred. These include:

- Financial leases. The legal right remains with the lessor but the risks and responsibilities apply to the lessee so therefore a change of ownership is imputed. As a result of this imputation a financial liability is recognized and as such lease payments are classified as partly loan repayments in the financial account and partly interest in the current account rather than as services in the current account.
- Goods imported into or exported from Fiji for processing and return. Gross values are recorded even though there is no legal change of ownership because these goods change during processing by being transformed or being incorporated into different goods. For goods undergoing repair only, the value of repair and not the gross value is recorded either in goods credit or debit.
- Transactions between a head office and a branch in Fiji. The branch is treated as a resident of Fiji so therefore flows between it and the head office are BOP transactions.

Recording of Transactions: Gross vs. Net

Current and capital account - Entries for current and capital accounts are described as being recorded **gross**, that is the debit and credit components are recorded separately. For example, tourism earnings from Australian tourists will be recorded as credit, while Fiji residents traveling to Australia for tourism activity will be recorded as debit. In the financial account transactions are recorded on a **net basis**. The net recording means that, for each item, credit transactions are combined with debit transactions to arrive at a single result – either a credit or a debit – reflecting the net effect of all increases or decreases in holdings of that type of asset or liability during the recording period. For example, \$50m

³ Transfer Pricing: Transfer pricing is used by affiliated enterprises in different countries and is generally different from prices that would be charged to enterprises outside the group hence the departure from the market price principle. Distortions caused by transfer pricing are not widespread in Fiji hence adjustments to account for transfer pricing are generally not made in Fiji.

foreign investment is injected into Fiji, over a period. During that same period, \$20m of foreign investors withdraw their investment from Fiji: the net flow of \$30m (\$50m-\$20m) will be shown as a credit entry under foreign investment into Fiji (liability) in the financial account.

CHAPTER 3

CLASSIFICATION

BOP and IIP statistics are arranged in a coherent structure to facilitate their use and adaptation for policy formulation, analytical studies, projections and international comparisons.

The standard BOP classification comprises the current account and the capital and financial account. Transactions in the current account and capital account are recorded on a gross basis whereas financial account records items on a net basis.

Current Account

Table 3.1 shows the standard classification of the current account. Descriptions of broad categories and items are in subsequent chapters.

Table 3.1: Current account: standard components

	Credit	Debit
Goods and services		
Goods		
General merchandise		
Goods for processing		
Repairs on goods		
Goods procured in ports by carriers		
Non-monetary gold		
Services		
Transportation		
Travel		
Communication		
Construction		
Insurance		
Financial Services		
Computer and Information		
Royalties and License Fees		
Other business services eg merchanting, market research		
Personal, cultural & recreational activities		
Government services		
Income		
Compensation of employees		
Investment income		
Direct investment income		
Portfolio investment income		
Other investment income e.g. interest on trade credit, loans to non-residents		
Current Transfers		
General Government		
Other sectors e.g. cash grants received by non profit organisations		

Capital and Financial Account

Table 3.2 shows the standard classification of the capital account. Descriptions of broad categories and items are in subsequent chapters.

Table 3.2: Capital and financial account: standard components

	Credit	Debit
Capital account		
Capital transfers		
Acquisition/disposal of non-produced, non-financial assets		
Financial account		
Direct investment		
Abroad		
Equity capital		
Reinvested earnings		
Other capital (any other miscellaneous transactions)		
In Fiji		
Equity capital		
Reinvested earnings		
Other capital (e.g. real estate)		
Portfolio investment		
Assets		
Equity securities		
Debt securities		
Liabilities		
Equity securities		
Debt securities		
Other investment		
Assets		
Trade Credits		
Loans		
Currency and deposits		
Other assets (e.g. household equity in life insurance)		
Liabilities		
Trade Credits		
Loans		
Currency and deposits		
Other liabilities (e.g. other miscellaneous accounts payable to foreign direct investors)		
Reserve assets		
Monetary gold		
Special drawing rights		
Reserve position in the IMF		
Foreign exchange		
Other claims (e.g. external financial assets held by other financial institutions but subject to control by the monetary authority)		

International Investment Position

Table 3.3 outlines the standard classification of the IIP. Whilst this statement may sometimes only refer to the stock of financial assets and liabilities at the end of any period, it is more useful to show the complete reconciliation statement which shows the opening and closing positions and the change in position due to financial transactions and other changes, and this has been done in Table 3.3.

Table 3.3: International investment position: standard components

			Changes in Position Reflecting					
			Position at the beginning of the year	Transactions*	Price changes	Exchange rate changes	Other adjustments	Position at the end of the year
			FIJI INVESTMENT ABROAD					
1	Direct Investment Abroad							
	1.1	Equity capital and reinvested earnings						
	1.2	Other capital						
2	Portfolio Investment							
	2.1	Equity securities						
	2.2	Debt securities						
3	Other Investment							
	3.1	Trade Credits						
	3.2	Loans						
	3.3	Currency and deposits						
	3.4	Other assets						
4	Reserve Assets							
	Fiji Investment Abroad							
			FOREIGN INVESTMENT IN FIJI					
1	Direct Investment in Fiji							
	1.1	Equity capital and reinvested earnings						
	1.2	Other capital						
2	Portfolio Investment							
	1.1	Equity securities						
	1.2	Debt securities						
3	Other Investment							
	3.1	Trade Credits						
	3.2	Loans						
	3.3	Currency and deposits						
	3.4	Other Liabilities						
	Foreign Investment in Fiji							
NET INTERNATIONAL INVESTMENT POSITION**								

CHAPTER 4

DATA DISSEMINATION AND RELATED ISSUES

Publication

FIBOS publishes quarterly BOP statistics as well as an annual series. The IIP statistics are published annually. Accompanying the statistics are descriptive notes, intending to explain to the users the key features of the statistics, factors influencing them and how they compare with earlier data.

The timetable detailing the release dates of the BOP and the IIP statistics are published approximately 12 months in advance. The BOP quarterly release is published with a one quarter lag and the annual release is published in the month of March the following year. The IIP release is published in the month of July the following year.

The BOP and IIP statistical releases, once finalized, are dispatched to key stakeholders on the day of the release. These include the Ministry of Finance and National Planning (MOFNP), Ministry of Tourism, Public Service Commission, Reserve Bank of Fiji, Fiji Visitors Bureau and the media. At a later date the releases are mailed⁴ to all other users in Fiji and abroad. These releases are also available on the FIBOS website: www.statsfiji.gov.fj.

Timing and availability of source data

The timing and publication of BOP and IIP statistics are constrained by the availability of source data on timely basis.

- *Merchandise trade data* are compiled using administrative source data⁵ and published as a separate statistical release known as the Overseas Merchandise Trade Statistics. Adjustments on a BOP-basis are made to the already existing trade data and published as the BOP current account sub-component; *Goods*.
- *Services data* are obtained from the Trade in Services Survey and the Overseas Exchange Transaction (OET) data at the Reserve Bank of Fiji (RBF). The data are used for the compilation of the International Trade in Services and the Tourism Earnings Releases and also forms the BOP current account sub-component: *Services*.
- *International Investment data* are obtained from the International Investment Survey and the RBF's commercial bank reports. Data on Reserve Assets are also obtained from the RBF as and when needed. The MOFNP is contacted for all government transactions.

Presentation of Statistics

As per the IMF's recommendations, Fiji's BOP statistics are presented in a set of accounts:

⁴ Mailing the releases is the responsibility of the Publications Unit.

⁵ The source is the Customs Department of the Fiji Islands Revenue and Customs Authority (FIRCA) for almost all the merchandise trade statistics.

- The current account, recording transactions in goods, services, income and current transfers,
- The capital account, recording transactions in capital transfers and non-produced, non financial assets, and
- The financial account, recording transactions in financial assets and liabilities.

Current and capital account data are presented on a gross basis, while the financial account data are presented on a net basis.

CHAPTER 5

CURRENT ACCOUNT

Overview

Current account measures transactions that involve economic values and occur between residents and non-residents, except those that are in financial assets and liabilities. It also includes offsets to current economic values provided or acquired without something of economic value in exchange, also known as quid pro quo.

Table 5.1 shows the make-up of Fiji's current account which contains four major components, three involving transactions or real resources i.e. goods, services and income and the fourth is current transfers, that which is acquired without a quid pro quo.

“Balance” denotes the difference between a credit and a debit for an item or a group of items. A negative sign in the current account represents a deficit. In summary, current account balance is the sum of goods, services and income account balance and the current transfer balance.

Table 5.1: Current account overview

	Credits	Debits	Balance
Goods			
Services			
Income			
Current Transfers			
Total Current Account			

CHAPTER 6

GOODS

Concepts and Definitions

Goods comprise movable goods that change ownership between Fiji residents and non-residents. Table 5.1 shows the goods component in the Fiji BOP current account.

Table 6.1: Goods

	Credits	Debits
Total Goods		
General Merchandise		
Overseas Trade		
BOP Conceptual Adjustments		
Goods for processing		
Repairs on goods		
Goods procured in ports by carriers		
Non-monetary gold		

Goods are divided into five components: general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and non-monetary gold.

General merchandise covers most movable goods⁶ that are exported to, or imported from non-residents and that undergo changes in ownership (either actual or imputed). It is derived by taking the overseas merchandise trade data and adjusting it to fit BOP concepts. The adjustments done are discussed under Conceptual Adjustment, later in this chapter.

Goods for processing cover export (or imports in the compiling country) of goods crossing the frontier for processing abroad and the subsequent re-import (or export in the compiling country) of the goods. This item is an exception to the change of ownership principle and is valued at the gross value.

Repairs on goods cover repair activity on goods provided to or received from non-residents on ships, aircraft etc. It is valued at the prices of the repairs and not at the gross value of the goods.

Goods procured in ports by carriers covers all goods e.g. fuel, provisions, stores and supplies that domestic ships and aircraft procure abroad (or foreign ships and aircraft procure in the compiling economy). Related services provided to carriers e.g. towing, port fee, maintenance are excluded, and recorded under transportation services.

⁶ Examples of goods are commodities such as sugar, gold, mineral water.

Non-monetary gold covers export and import of gold e.g. unrefined gold, bullion and coins. Gold held as reserve asset is recorded in the financial account.

Valuation

In principle, market price should be used but for goods, transaction price, which is a close approximation, is used.

Exports are reported as f.o.b. The f.o.b. value includes the value of the good, costs in getting the goods to the customs frontier from where it is exported and also includes the cost of loading the goods on board the carrier at the frontier. In case the value of the good is not known, the f.o.b. is assessed on the basis of prices current at the time of export e.g. goods sent on consignment where the selling price is not known until the goods are sold (refer conceptual adjustments).

Imports are reported as c.i.f. The c.i.f. value includes cost, insurance and freight.

Coverage and timing

In principle the transactions in goods should be recorded when ownership changes. However the international standards on trade records goods at the time when they enter or leave the economic territory⁷ of a country; in the case of customs based data collection systems, the time of recording should be the date of lodgment of the customs declaration. The two do not always occur at the same time. It is not possible for any statistical agency to track international transactions to the exact time of the change in ownership. For this reason the time at which the customs entry is made is taken as a convenient and reasonable proxy.

Goods that may not cross the customs frontier but are treated as merchandise in Fiji BOP are:

- ships and aircraft owned by Fiji residents which may not enter Fiji;
- goods consumed on Fiji owned operations such as Fiji ships and aircraft;
- goods salvaged and fish caught by Fiji shipping companies and sold abroad directly;
- goods purchased in foreign countries by the Fiji Government for its own use in those countries; and
- goods lost or destroyed after ownership has been acquired by the Fiji importer but before they have crossed the frontier.

Goods that may cross the customs frontier but are not treated as merchandise in Fiji BOP are:

- returned exports and imports;
- machinery, drilling and transport equipment shipped under an operational lease arrangement;

⁷ For Fiji, its economic territory coincides with its customs territory.

- direct transit trade e.g. goods in transit;
- shipment given by a country to that country's military and diplomatic establishments overseas;
- goods lost or destroyed after having crossed the frontier but before having been delivered by the exporter; and
- goods temporarily exported or imported, not for sale e.g. display equipment for trade fairs.

Conceptual Adjustments

Conceptual adjustments are done to bring general merchandise component of goods in line with BOP concepts. Four types of adjustments are made:

- Coverage - where overseas merchandise trade statistics include or exclude items that should be treated differently to BOP concepts, e.g. imports is valued as c.i.f., that is, it includes freight and insurance. However, freight and insurance services should be recorded under services account.
- Timing - where the time of change of ownership is other than the period in which the transaction was entered into the overseas merchandise statistics;
- Valuation - where the value declared at the customs frontier is not appropriate as a proxy for market value, e.g. Fiji sugar receives a preferential price in the EU market. The difference between the world market price and the EU price is placed in the current transfers account.
- Classification - where the customs classification system is inappropriate for classifying BOP transactions. For example, some transactions may be classified as goods, however, for BOP purposes; they need to be entered under accounts other than goods, e.g. imports data are inclusive of freight, however freight has to be separated and placed under services account.

For exports of goods the principal conceptual adjustments are:

- Valuation adjustment - The commodity export for which adjustment is made is sugar – sugar is sold under preferential price agreement to the European Union. The European Union pays a much higher price for Fiji's sugar than what we would receive if sold in the world market. The preferential price less the world market price is treated as transfers. The transfer's portion is removed from merchandise exports and appropriately classified under current transfers.
- Timing adjustments for significant goods which left Fiji in one period but are known to have changed ownership in another period.
- Coverage adjustment for goods which are operationally leased since there is no change of ownership, e.g. cinema film.
- Classification – gold exports are removed from general merchandise exports and categorized under non-monetary gold, and fuel procured by foreign airlines/ships in Fiji are removed from total exports and categorized under goods procured in ports by carriers.

For imports of goods the principal conceptual adjustments are:

- Coverage adjustment:
 - goods which are *operationally* leased - diplomatic and military goods, cinema film.
 - fish caught by foreign vessels and subsequently directly exported are deducted from imports.
- Adjustment for reclassification of non-resident freight and insurance, respectively under services. Insurance and freight are estimated as a certain percentage of f.o.b. imports and placed in the services account.
- Timing adjustments for significant goods which entered Fiji in one period but are known to have changed ownership in another period.
- Classification - Gold imports are removed from imports data and categorized as non-monetary gold.

Data Quality

Goods form the largest component of the current account. For the BOP compilation, data on goods are extracted from the merchandise trade data compiled at FIBOS. FIBOS sources these data from FIRCA in flat files and processes them using the Systematic Analysis of Statistics software (SAS). The quality and timeliness of the data is dependent on the quality and timeliness of export and import entries provided by exporters/importers and their agents to FIRCA. Before data are released by FIBOS, data validation is done and any error found is corrected. Areas which impact upon the accuracy are:

- incorrect values on customs document;
- the application of the cut-of level of transaction value for the processing of customs documentation which leads to an under-valuation; and
- the items purchased over internet.

Table 6.2: Summary of Sources and Methods – Goods

Component	Data Source	Method of estimation
General merchandise	Overseas Merchandise Trade Statistics compiled by the International Trade unit of the FIBOS	Data undergoes conceptual adjustments. Refer Conceptual Adjustments in this Chapter.
Goods for processing		HS codes 990.410 and 990.420 falling under the Chapter titled Commodities and Transactions not Classified According to Kind
Repairs on goods		HS codes 990.310 and 990.320 falling under the Chapter titled Commodities and Transactions not Classified According to Kind
Goods procured in ports by carriers		Data is directly obtained from source
Non-monetary gold		Classification adjustment - Gold exports data obtained from source are deducted from merchandise exports and classified under non-monetary gold.

CHAPTER 7

SERVICES

Concepts and Definitions

Services are products other than physical goods so therefore:

- there is no physical object over which ownership rights can be established; and
- a service cannot be traded separately from its production.

Nevertheless included are some transactions in goods where, by international agreement, it is not practical to separate the goods and services components:

- goods purchased by travelers are classified to travel services;
- goods that do not cross frontiers and are acquired and disposed off in the same recording period e.g. merchanting. The gross margin of such goods is recorded in other business services; and
- goods bought in Fiji by foreign government, their employees and their dependents to be used in Fiji and goods bought and used overseas by Fiji government, their employees and their dependents are recorded in government services n.i.e..

Services exclude those services that are purely for labor, which gets recorded under compensation of employees under income. Services are recorded in BOP when the service is delivered or received. Table 7.1 shows the main service categories.

Table 7.1: Services

	Credits	Debits
Total Services		
Transportation		
Sea Transport		
Passenger		
Freight		
Other		
Air Transport		
Passenger		
Freight		
Other		
Travel		
Business		
Personal		
Health Related		
Education related		
Others		
Communication		
Postal		
Telecommunication		
Construction		
Insurance		
Insurance service		
Freight Insurance on Goods		

	Credits	Debits
Financial Services		
Computer and Information		
Royalties and License Fees		
Other business services		
Merchanting & other trade related		
Operational leasing services		
Miscellaneous business & professional services		
Legal, accounting, management, etc		
Advertising, market research		
Research and development		
Architectural, engineering, etc		
Agricultural, mining, on site processing		
Other		
Personal, cultural & recreational activities		
Audio visual and related services		
Other personal, cultural services		
Government services		

Transportation covers services provided through carriers (eg ships and aircraft) by their operators and goods and services consumed by carriers in the course of their operations. The types of services provided through carriers include the carrying of passengers and freight and others.

- Carrying of passengers refer to international transportation of non-residents by Fiji resident airlines and residents by non-resident airlines. Other services for which passengers make expenditure on board carriers, or for which they pay charges to carriers e.g. for excess baggage, are also included. However, passenger services provided to non-residents by resident carriers within the resident economy is excluded, and entered in travel.
- Carrying of freight refer to services performed by residents and non-residents carriers on the movement of goods.
- Other services cover the provision of stevedoring, airport and harbour fees, fees associated with passenger and freight transportation, pilotage, towage, maintenance and repair.

Transportation services are split into Sea, and Air. Related items that are excluded from transportation are:

- Freight insurance which is included in insurance services;
- Repairs of ports and airfield facilities which are covered in construction services;
- Goods procured in ports by non resident carriers and repairs on vessels and aircraft which are included in goods; and
- Rentals and charters of carriers without crew which, are included in operational leasing services.

Travel covers goods and services for personal use by Fiji citizens traveling abroad or foreigners traveling to Fiji. Business travel includes travel for official and private purposes, such as conferences, meetings, seminars, sales and the like. Goods and services recorded under travel include accommodation, meals, entertainment, transportation within the economy visited, gifts and souvenirs etc. A traveler is a person who stays for less than a year in a country where he is not a resident. Exceptions are:

- Expenditure by individuals and their dependents stationed abroad at military or diplomatic facilities are included under government services n.i.e.;
- Expenditure by individuals employed in a country other than their home country for less than a year is treated as part of travel; and
- Expenditure by students and medical patients are recorded within travel regardless of the length of their stay in the reporting country because their center of economic activity is their home country.

Travel services are split into business and personal travel. Personal travel covers holiday, participation in sports and cultural activities, visiting friends and relatives and educational and health related purposes.

Communication covers telecommunication and postal services.

- Telecommunication covers transmission of sound, images or other information by telephone, telex, telegram, cable, broadcasting, satellite, electronic mail, facsimile etc and include business network services, teleconferencing and support services.
- Postal covers courier, post office counter and mailbox rental services, pick-up, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels and packages by national postal administrators and other operators.

Construction covers work performed within a year (this rule is applied with flexibility) on construction projects and installations by employees of an enterprise in locations outside the economic territory of the enterprise. Goods imported by the enterprise for use in projects are included in construction services rather than goods. However, when a subsidiary or a branch is set up to carry out the construction work, the subsidiary or branch is then treated as a resident of the economy where the construction activity is taking place. Transactions between the subsidiary/branch with its parent company is recorded under direct investment.

Insurance covers the provision of all types of insurance and reinsurance such as freight insurance on goods, reinsurance and other forms of direct insurance, including life, marine, general, fire and accident by non-residents to residents and vice-versa as well commissions or fees earned or paid for the provision of insurance services. Insurance is treated as two components:

- Service component, which is that part of the premium that pays the insurance company for the service it provides and is recorded in the current account under services, and

- Transfer component, which is that part of the premium that the insurance company keeps and then transfers back to the policyholder when a claim is made and is recorded in the current account under current transfers.

Financial covers financial intermediary and auxiliary services conducted between residents and non-residents. This includes intermediary service fees such as those associated with letters of credit, bankers' acceptances, lines of credit, financial leasing and foreign exchange transactions. This also includes commissions and other fees related to transactions in securities, brokerage and placements of issues, underwritings, redemptions, asset management and futures trading. Excluded are transactions covering insurance services. *Conceptually it should also include Financial Intermediation Services Indirectly Measured (FISIM), which estimates the value of the services provided by financial intermediaries for which no explicit charges are made. Whenever financial intermediaries take deposits or make loans, a service is being provided and interest rates on deposits and loans include an implicit service element. Currently, there are no estimates in the Fiji BOP.*

Computer and Information covers computer data and news-related services between Fiji residents and non-residents.

- Computer services cover transactions involved with systems analysis, programming and maintenance, computer-related consultancy, the maintenance and repair of computer hardware, data entry, processing, outsourcing and facilities management and systems integration. Excluded are royalties and license fees for computer
- Software and the export or the import of the computer software.
- Information services cover transactions involved with the provision of news, photographs and direct non-bulk subscriptions to newspapers and periodicals. Also included are database services, conception, data storage and the dissemination of data both on-line and through magnetic tapes.

Royalties and License Fees covers payments and receipts between Fiji residents and non-residents for the authorized use of intangible, non-produced, non-financial assets and proprietary rights (such as patents, copyrights, trademarks, franchises) and use, through licensing agreements, of produced originals (such as manuscripts and films).

Other business covers the following 3 components:

- Merchanting and other trade related services:
 - Merchanting covers purchase of goods by a Fiji resident from a non-resident and its subsequent sale to another non-resident without the good entering Fiji. The value of this service is calculated as the difference between how much the good is purchased for and how much it is sold for.
 - Other trade related services cover commissions on goods and services between resident and non resident merchants, commodity brokers, commission agents and dealers.

- Operational leasing covers the resident/non-resident leasing (rental) and charters (without crew) of ships, aircraft and other transportation equipment, including computer hardware and construction equipment.
- Miscellaneous business, professional and technical services covers:
 - Legal services
 - Accounting and auditing
 - Advertising, market research and public opinion polling
 - Business and management
 - Research and development services
 - Architectural, engineering and other technical services
 - Agriculture, mining & on-site processing services
 - Other business services that cannot be classified to any of the business services listed above.

Personal, cultural and recreational covers:

- Audio visual and related services - services and fee related to the production of motion pictures, radio, television programs and musical recordings.
- Other cultural and recreational services include services associated with libraries, museums and other sporting, cultural and recreational activities.

Government n.i.e. covers embassies, consulates, military units and defense agencies with residents of economies in which they are located and all transactions with other economies.

Valuation

In principle market price should be used but for services transaction price which is a close approximation, is used.

Data Quality

Data is mostly sourced from surveys. Factors that affect the data quality are:

- Rapidly changing nature of the survey population – as companies expand, or as new companies enter the market, the survey population has to be reviewed and updated. At times there are time-lags between the establishment of a new company and incorporation of the particular new company into the survey population.
- Diverse range of services activities – the range of services has also changed with changing nature of business.
- Bundling of services – several services are provided as a bundle, for example, financial, advertising, engineering service if provided as a bundle makes it difficult for respondents to report them under appropriate categories.
- Accuracy in reporting – human error could also affect the accuracy and quality of data.

Table 7.2: Summary of Sources and Methods – Services

Component	Data Source	Method of estimation
Transportation	Survey of International Trade in Services conducted by the International Trade Unit of FIBOS	Data on passenger fares, air freight credits, port terminal dues, repairs, stevedoring are directly obtained from source.
	Overseas Merchandise Trade Statistics compiled by the International Trade Unit of FIBOS	11% of total imports is assumed to be freight - 84% is sea freight, 16% is air freight.
	OET data compiled by the RBF	Data on sea freight credits and salvage earnings extracted
Travel	International visitor survey conducted by the Ministry of Tourism (MOT)	Provides estimated average daily spending (per diem) of tourists.
	Tourist expenditure survey conducted by the Balance of Payments Unit of FIBOS.	Provides an index to inflate the previous years per diem to estimate the current years per diem until actual data is received from the MOT
	OET data compiled by the RBF	Provides data on travel debits and education travel credits
Insurance	Financial Institutions Group of the RBF	Provides insurance data
	Overseas Merchandise Trade Statistics compiled by FIBOS	2% of total imports is assumed to be freight.
Government Services	MOF	Provides data on peacekeeping flows
	OET data compiled by the RBF	Provides data on embassy and international agency transactions
Other Services	Survey of International Trade in Services conducted by the International Trade Unit of FIBOS	Data on financial services, computer and information, telecommunication, royalties etc are sourced from the survey.

CHAPTER 8

INCOME

Concepts and Definitions

In the BOP context, income refers to the return/payment for the use of labor (compensation of employees) or financial capital (investment income). Compensation of employees comprises wages, salaries and other benefits earned by individuals from economies other than those where they are residents. Investment income comprises income earned from the provision of financial capital and is categorized into direct, portfolio and other investment income. Income is recorded in the period in which the benefits are enjoyed by the user. Table 8.1 shows the main income categories.

Table 8.1: Income

	Credits	Debits
Total income		
Compensation of employees		
Investment income		
Direct investment income		
<i>Income on Equity</i>		
Dividends and distributed branch profits		
Reinvested earnings and undistributed branch profits		
<i>Income on debt</i>		
Portfolio investment income		
<i>Income on equity</i>		
<i>Income on debt</i>		
Other investment income		

Compensation of employees covers wages, salaries, and other benefits (cash or in-kind) earned by Fiji residents working abroad, and vice versa. Also included are contributions made by employers such as social security benefits, private insurance or pension funds. Employees in this context are seasonal or other short-term workers, whose economic interest is in Fiji. Also included are locals working in foreign embassies and other international institutions located in Fiji.

Investment income covers income derived from ownership of foreign financial assets. Investment income is classified by direct investment, portfolio investment and other investment.

- Direct investment income – this category is further sub-classified into income on equity and on debt. Income on equity (share holdings of 10% or more) is divided into distributed income (dividends and distributed branch profits) and reinvested earnings and undistributed branch profits. Income on debt consists of interest payable/receivable to or from direct investors from or to associated enterprises abroad.

- Portfolio investment income – comprises income transactions between residents and non-residents and is earned from holdings of shares, bonds, notes, and money market instruments. This category is sub-divided into income on equity (dividends) and income on debt (interest). Re-invested income on shareholdings of less than 10% (portfolio investors) is not recorded because these portfolio investors are not able to influence the level of distributed and undistributed income.
- Other investment income – this category includes interest earned by Fiji residents from claims on non-residents and vice versa. It includes interest earned on deposits, loans and trade credits.

Valuation

Investment income is measured before the deduction of withholding taxes.

Table 8.2: Summary of Sources and Methods – Income

Component	Data Source	Method of estimation
Compensation of employees	Embassy Surveys conducted by the BOP unit of FIBOS	Provides data on salary paid to local staff
	Survey of Non-Profit Organisations conducted by the BOP unit of FIBOS	Provides data on salary paid to local staff employed in non-profit organizations most of which are international organisations.
	OET data compiled by the RBF.	Provides data on income earned by Fiji residents abroad whose centre of economic interest is Fiji. OET code used is OET R41 – Personal Receipts.
Investment income		
Direct investment income (debits and credits)	Quarterly International Investment Survey conducted by the BOP unit of FIBOS.	All data are sourced from this survey, except commercial bank profit remittances, which is supplied by the RBF.
Portfolio investment income (debits and credits)		All data are sourced from this survey
Other investment income (debits and credits)		All data are sourced from this survey

CHAPTER 9

CURRENT TRANSFERS

Concepts and Definitions

Transfers are offsetting entries for real resources or financial items provided without a quid pro quo, by one economy to another. For example, if Fiji receives \$10 million worth of goods from Australia as a gift, this will be recorded as a transfer, since there is no compensation. Transfers are categorized into current transfers and capital transfers. All transfers not considered to be capital (refer capital transfers under Chapter 10: Capital Account) are current. Current transfers affect the level of disposable income and influence the consumption of goods and services. Consumption should take place within twelve months.

Table 9.1: Current transfers

	Credits	Debits
Current Transfers		
General Government		
Other sectors e.g. cash grants received by non profit organizations, workers remittances etc		

The current transfers are divided into two components:

- General government – consists of current transfers between the government sector of Fiji and non-residents. This includes current transfers between Fiji government and foreign government, non-residents, and non-government entities.
- Other sectors – sub-categorized into workers remittances and others;
 - Workers remittances consist of goods or financial instruments transferred by Fiji migrants living and working overseas to Fiji residents. Workers remittances include only those transfers made by Fiji workers abroad who stay overseas for at least a year. If Fiji residents working abroad remain overseas for less than a year, they are not regarded as residents of the respective overseas country. Remittances to their home country then are classified as labor income from non-resident employers. This is entered in the income account, under compensation of employees.
 - Other transfers – includes transfers between Fiji nongovernmental entities and foreign governments and/or foreign nongovernmental entities. This includes gifts, grants made for purposes other than investment, contributions to religious, scientific, cultural and charitable organizations, membership fees paid to non profit associations, scholarships and similar grants received from foreign governments to finance on the job training or education, taxes, fines, licenses to fish, net premiums and claims on non-life insurance.

Valuation

The values recorded in the transfer entries are the same as those of the real and financial resources to which the transfers are offsets. Real resources transfers are valued by the prevailing market price.

Coverage and timing

Transfers are recorded when the resources to which the transfers are offsets, change ownership.

Table 9.2: Summary of sources and methods – current transfers

Component	Data Source	Method of estimation
General Government Transfers	MOF	Provides data on cash transfers received by government
Other sectors		
Workers remittances	OET data compiled by the RBF	For workers remittances credit, OET R32 (gifts, maintenance to individuals) is used. For workers remittances debit, OET P34 (maintenance of dependents overseas by residents) is used.
Other transfers		OET codes used: Credits – R33 (gifts and donations to Fiji governments and statutory bodies) R34 – (gifts, donations to other organizations) Debits – P32 – (gifts, charitable donations by government) P39 – (non-residents transfer of funds overseas) P40 – (pension and superannuation benefits).
EU sugar transfer	Fiji Sugar Marketing	Sugar is sold under the preferential price agreement to the European Union (EU). The difference between the price received from the EU, and the world market price is taken out from sugar exports and recorded under transfers.
Embassy grants to Fiji	Embassy survey conducted by the BOP unit of FIBOS	All data are directly sourced
Non-profit organizations cash grants from abroad	Survey of Non-Profit Organisations conducted by the BOP unit of FIBOS	
Insurance claims/premiums	RBF	

CHAPTER 10

CAPITAL ACCOUNT

Overview

The capital account records the flow of capital transfers and the acquisition/disposal of non-produced, non-financial assets.

Table 10.1: Capital account overview

Capital account	Credits	Debits
Capital transfers		
Acquisition/disposal of non-produced, non-financial assets		

Capital transfers

A capital transfer is the transfer of a fixed asset, or the forgiveness of a liability. A cash transfer is considered a capital transfer when it is linked to the acquisition/disposal of a fixed asset. Capital transfers are divided into two components: general government and other sectors.

- General government – the general government component is further divided into debt forgiveness and others. *Debt forgiveness* is the cancellation of debt by mutual agreement of the debtor and the creditor. The amount forgiven is treated as a capital transfer. Fiji has not experienced this type of transaction as yet. The *others* component of general government capital transfers mainly records investment grants, which involves capital transfers of cash or in kind, made by governments to non-residents or vice-versa, to finance all or part of the costs of acquiring fixed assets.
- Other sectors – Capital transfers of the other sectors is subdivided into migrant transfers, debt forgiveness and others. *Migrant transfers* refer to the household and personal effects and the financial claims and liabilities transferred by migrants (other than students, medical patients, or diplomatic, military or similar personnel stationed abroad) from former to new countries. These are not transfers between two countries but changes which arise from migration. Migrant transfers constitute the largest component of Other Sectors capital transfers. However, so far, only cash transfers are recorded in the BOP, as there are no estimates for goods transferred.

Acquisition or disposal of non-produced, non-financial assets

This account captures purchases and sales of intangible, non-financial assets such as copyrights, licenses, patents etc. These assets are not produced, and they do not satisfy the definition of financial assets. The fees, royalties etc associated with patents, copyrights are recorded separately in the services account, under royalties and license fees. The land sold to or by a foreign embassy is also a transaction between two economic territories and

is thus treated as a sale or purchase of a non-produced, non-financial asset. So far, no transactions have been recorded in this account, in Fiji's BOP.

Valuation

The valuation for capital transfers is treated the same as current transfers. The valuation of capital transfers should be at the market value of the real and financial resources to which the transfers are offset.

Coverage and timing

Transfers are recorded when the resources to which the transfers are offsets, change ownership.

Table 10.2: Summary of sources and methods – capital account

Component	Data Source	Method of estimation
General Government	.	
Debt Forgiveness	No debt forgiveness transactions have occurred to date	
Others	MOF	Includes all aid in kind received by the Fiji Government
Other Sectors		
Debt Forgiveness	No debt forgiveness transactions have occurred to date	
Migrant transfers	OET data compiled by the RBF	Credits – OET R35 (immigrants transfers) Debits – OET P28 (emigrants transfers)
Others	Survey of Non-Profit Organisations and Survey of Embassy's conducted by the BOP unit of FIBOS	Provide data on: <ul style="list-style-type: none"> • Non-profit organizations capital grants received • Non-profit organizations grant in kind received • Embassy grants to Fiji
	OET data compiled by RBF	Provides data on: OET P38 – Non residents transfer of funds upon departure from Fiji
Acquisition/Disposal of non produced, non financial assets.	Survey of International Trade in Services conducted by the International Trade Unit of FIBOS	Data sourced directly from the survey.

CHAPTER 11

FINANCIAL ACCOUNT AND INTERNATIONAL INVESTMENT POSITION

A] Financial account

Financial account measures financial transactions involving Fiji's claims on (assets), and liabilities to non-residents. The financial account is classified into assets and liabilities, which are broken down into types of investments (direct, portfolio, other investment and reserve assets) and instrument of investment. BPM states three criteria that must be met for a transaction to be recorded in the financial account:

- A transaction involving a change of ownership, including the creation or liquidation of an asset or liability.
- An asset or liability must represent actual claims that are legally in existence.
- A transaction involves an external financial asset or liability.

Table 11.1 shows the make-up of Fiji's financial account. The financial account balance is the sum of foreign investment into Fiji, Fiji's investment abroad and reserve assets.

Table 11.1: Financial Account Overview

	Amount	Formulae
Financial Account Balance		1+2+3
(1) Foreign Investment Into Fiji		1a+1b+1c
a. Direct Investment		
b. Portfolio Investment		
c. Other Investment		
(2) Fiji Investment Abroad		2a+2b+2c
a. Direct Investment		
b. Portfolio Investment		
c. Other Investment		
(3) Reserve Assets		

Financial account inflows reflect either increases in Fiji's international financial liabilities (i.e. increase in foreign investment into Fiji), or decreases in international financial assets (Fiji residents withdrawing their investments abroad). Correspondingly, outflows reflect either increases in Fiji's international financial assets (increase in Fiji's investment abroad), or decreases in its international financial liabilities (foreigners withdrawing their investments in Fiji).

Note that the income generated (paid or re-invested) from holding a financial asset/liability is recorded in the BOP current account under the income account. The re-invested portion of the income is also shown in the financial account.

Foreign investment into Fiji is treated as a liability. An increase in liability is shown with a plus sign (+), while a decrease is shown with a minus sign (-). Fiji investment abroad is an asset, an increase of which is shown with a minus sign (-); a decrease is shown with a plus sign (+).

Valuation and time of recording

- Market prices are used to value transactions and stocks
- Where financial instruments are denominated in foreign currency, these are converted at market rates,
- The time of ownership change is the basis of recording financial transactions and stocks

Each of the components; direct investment, portfolio investment and other investment are discussed in the following chapters.

B] International investment position

The IIP is the balance sheet of the stock of external financial assets and liabilities of an economy. While the BOP records flows, the IIP shows the stock position. The relationship between the BOP and IIP has been discussed in Chapter 2.

Classification

Classification of the IIP has two dimensions:

- Assets, and
- Liabilities.

The sub-classification is by instrument:

- Direct investment,
- Portfolio investment,
- Other investments, and
- Reserve assets.

Factors affecting the change in stock position from the beginning to the end of a period are recorded. These factors are:

- Transaction changes,
- Price changes,
- Exchange rate changes, and
- Other adjustments. Other adjustment is a residual category representing write-offs and reclassifications from one component to another.

Assets less liabilities give the net IIP ie if liabilities exceed assets, the economy has a negative net IIP.

Sign Convention

The sign convention differs from that used in BOP statistics. A positive sign denotes a net increase in assets or liabilities, and a negative sign denotes a net decrease. Refer column titled Transactions in Table 16.2. On the other hand, in the financial account of the BOP, a positive sign denotes an increase in liabilities or decrease in assets, while a negative sign denotes a decrease in liabilities or an increase in assets.

Fiji's IIP

Table 16.1 shows the different investment instruments of the IIP statement. Each of these investment instruments has been discussed in detail in the previous chapters.

Table 11.2: International Assets and Liabilities for Year Ended 31 December, 200_

	FJI'S INTERNATIONAL ASSETS
Equity Assets	
Loans and other	
Reserve Assets	
Total International Assets	
	FJI'S INTERNATIONAL LIABILITIES
Equity liabilities	
Borrowings	
Total International liabilities	
	FJI'S NET INTERNATIONAL INVESTMENT POSITION
Net Equity Position	
Net Overseas Debt Position	
Net International Investment Position	

These tables are prepared on a balance sheet basis

Linking BOP and IIP statistics

The reconciliation statement shows the position at the beginning of the period (opening position), the factors affecting this position, and the position at the end of the period. Table 16.2 shows the reconciliation statement components for Fiji.

Table 11.3: International Investment Position Reconciliation Statement for the Year Ended 31 December 2005, 200_

		Position at the beginning of the year	Changes in Position Reflecting				Position at the end of the year
			Transac tions*	Price changes	Exchange rate changes	Other adjust ments	
		FIJI INVESTMENT ABROAD					
1	Direct Investment Abroad						
	1.1 Equity capital and reinvested earnings						
	1.2 Other capital						
2	Portfolio Investment						
	2.1 Equity securities						
	2.2 Debt securities						
3	Other Investment						
	3.1 Trade Credits						
	3.2 Loans						
	3.3 Currency and deposits						
	3.4 Other assets						
4	Reserve Assets						
	Fiji Investment Abroad						
		FOREIGN INVESTMENT IN FIJI					
1	Direct Investment in Fiji						
	1.1 Equity capital and reinvested earnings						
	1.2 Other capital						
2	Portfolio Investment						
	1.1 Equity securities						
	1.2 Debt securities						
3	Other Investment						
	3.1 Trade Credits						
	3.2 Loans						
	3.3 Currency and deposits						
	3.4 Other Liabilities						
	Foreign Investment in Fiji						
NET INTERNATIONAL INVESTMENT POSITION**							

* A positive figure denotes a net increase in assets or liabilities, a negative sign denotes a net decrease. The sign convention differs from that used in Balance of Payments statistics.

** Assets minus liabilities.

Other adjustment is a residual category representing write-offs and reclassifications from one component to another.

CHAPTER 12

DIRECT INVESTMENT

Introduction

Direct investment is investment undertaken by an entity resident in one economy (the direct investor) in an enterprise resident in another economy (the direct investment enterprise), with the objective of obtaining or sustaining a lasting interest in the enterprise and exercising a significant degree of influence in its management.

Direct investment comprises the initial transactions between the two entities, that is the transaction that establishes the direct investment relationship – and all subsequent transactions between the entities and among affiliated enterprises.

In the case of banks and other financial intermediaries (depository corporations) in a direct investment relationship, only equity transactions and permanent debt (loan capital representing a lasting interest) transactions between them are included in direct investment. All other forms of finance are included under portfolio and other investment.

Definitions of direct investment enterprise and direct investor

- A **direct investment enterprise** is an incorporated or an unincorporated enterprise in which a direct investor owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). The direct investment relation extends to direct investment enterprise subsidiaries (incorporated enterprises that are more than 50 percent owned by the direct investor), and associates (incorporated enterprises that are between 10 and 50 percent owned by the direct investor and branches directly or indirectly owned by the direct investor.
- The **direct investor** may be an individual, an incorporated or unincorporated private or public enterprise, an associated group of individuals or enterprises, or a government or government agency that owns a direct investment enterprise (10 percent or more) in an economy other than in which the direct investor resides.

Table 12.1 illustrates the financial transactions for Fiji's direct investment abroad and foreign direct investment into Fiji during the year ended 2006.

Table 12.1: Direct investment into Fiji/abroad

	Amount	Formulae
Direct Investment into Fiji		(1+2+3)
1. Equity capital		
2. Re invested earnings		
3. Other capital		
Direct investment abroad		(4+5+6)
4. Equity capital		
5. Re invested earnings		
6. Other capital		

Classifications

The data is classified according to direction of investment. Investment by Fiji residents abroad is recorded under direct investment abroad, while foreign investment into Fiji is recorded under direct investment into Fiji. Within each component of direct investment, separate data in respect of assets and liabilities are collected. The injections and withdrawals are netted out under each category, and recorded in the appropriate account with the relevant sign (positive or negative). For example, for direct investment into Fiji (equity), total injections are \$80m; total withdrawals are \$20m, the net flow is \$60m ($=+\$80m - \$20m = \$60m$). Hence, equity, under direct investment into Fiji will show \$60m.

Equity capital

This covers equity in branches, all shares in subsidiaries, and other capital contributions which constitute part of the capital of the direct investment enterprise. The 10 percent ownership is used as the benchmark for classification into direct investment equity. Shareholdings of below 10 percent are treated as portfolio investment.

Re-invested earnings

Re-invested earnings are a portion of the earnings of the enterprise that are retained by the enterprise. An enterprise may distribute all the profits amongst its shareholders, or distribute a portion of its earnings amongst all shareholders, while retain the balance. These residual earnings are re-invested into the company. Re-invested earnings increase the shareholders interest in the company, in proportion to percentage shareholdings.

Other capital

This includes stock licensed imports and real estate purchases.

Table 12.2: Summary of Sources and Methods: Direct Investment

Component	Data Source	Method of estimation
All types of direct investment	International Investment Survey conducted by the BOP Unit of FIBOS.	The survey provides information to measures financial transactions, level of investment, price change, exchange rate change and other adjustments for both Fiji investment abroad and foreign investment into Fiji.
	OET data compiled by RBF	R48 – Real Estate Purchased in Fiji

Valuation

Survey respondents are asked to report at market values.

CHAPTER 13

PORTFOLIO INVESTMENT

Introduction

Portfolio investment includes transactions in equities, other securities, and financial derivatives, not classified to either direct investment or reserve assets.

Classification

Portfolio investment is classified into assets (claims on non-residents) and liabilities (obligations to non-residents), and within the assets and liabilities, the transactions are classified by type of instrument. Equity securities and debt securities are separately shown, with debt securities sub-classified into bonds and notes, money market instruments, and financial derivatives:

- *Equity securities* – these are instruments acknowledging the holders' claims to the residual value or residual income of the issuing enterprise after the claims of all other creditors have been met. Equity shareholdings of below 10 percent are also included here.
- *Bonds and notes* – this includes debt securities with original contractual maturities of more than one year.
- *Money market instruments* – these are debt securities issued with maturities of one year or less. These short-term instruments generally give holders the unconditional rights to receive stated amounts on maturity.
- *Financial derivatives* – this includes options and warrants and other derivatives. No transactions have been experienced in Fiji's BOP so far.

Both equity and debt securities are further split into sectors, namely general government, monetary authorities, banks, and other sectors.

Table 13.1 shows the standard components of the Portfolio Investment account:

Table 13.1: Portfolio Investment

	Debit	Credit
Equity Securities		
General Government		
Monetary Authority		
Banks		
Other sectors		
Debt Securities		
Bonds and notes		
General Government		
Monetary Authority		
Banks		
Other sectors		

	Debit	Credit
Money Market Instruments		
General Government		
Monetary Authority		
Banks		
Other sectors		
Financial Derivatives		
General Government		
Monetary Authority		
Banks		
Other sectors		

Table 13.2: Summary of Sources and Methods: Portfolio Investment

Component	Data Source	Method of estimation
Assets		
Equity & Debt Securities	RBF	The RBF provides data on commercial banks investment in foreign securities.
	International Investment Survey	The survey provides details of security holdings of other sectors.
Liabilities		
Equity & Debt Securities	RBF	The RBF provides data on commercial banks liabilities.
	International Investment Survey	The survey provides details of security holdings of other sectors.

Valuation of the Stock of Portfolio investment

Survey respondents are asked to report at market values.

CHAPTER 14

OTHER INVESTMENT

Introduction

Other investment consists of trade credits extended/received, loans, deposits and other instruments. *Other investment* is a residual category that includes all financial instruments not considered as direct investment, portfolio investment or reserve assets.

Classification

The *other investment* category is classified into assets and liabilities, similar to the classification discussed under portfolio investment. Within the asset and liability classification, the components are further sub-divided by instrument and institutional sector. The different *other investment* instruments in Fiji BOP are:

- Trade credits – arises from direct extension during the normal course of trading, of credit from a supplier to a buyer ie when payment for the goods/services is made at a time that differs from the time when ownership changes.
- Loans –financial assets/liabilities created through the lending of funds by one party to another. Included are loans to finance trade, mortgages, other loans and advances, and financial leases. BPM5 treats financial leases as loans since it is a means of financing the purchase of goods eg when Fijian domestic airline companies obtain aircraft from abroad on lease, the imports data will record imports of aircraft at the prevailing market value (debit entry). This transaction will be matched by an entry in the financial account, reflecting the increase in financial liabilities (credit entry).
- Currency and deposits – consists of notes and coins in circulation. An economy's external assets consist of notes and coins issued by foreign governments and held by residents, and vice versa for liabilities. Deposits consist of non-residents holding a deposit with a resident financial institution, and vice versa.
- Others – other assets and liabilities are residual items that include all external financial assets and liabilities not recorded elsewhere in the financial account.

The table below shows the standard components of the *Other Investment* account:

Table 14.1: Other Investment

	Debit	Credit
Trade Credits		
General Government		
Other sectors		
Loans		
Monetary Authority		
Long term		
Short term		
General Government		
Long term		

Short term		
Banks		
Long term		
Short term		
Other sectors		
Long term		
Short term		
Currency and deposits		
General Government		
Monetary Authority		
Banks		
Other sectors		
Other Instruments		
General Government		
Monetary Authority		
Banks		
Other sectors		

Table 14.2: Summary of sources and methods: other investment

	Data Source	Method of Estimation
Trade Credits	International Investment Survey conducted by the BOP Unit of FIBOS	All data are directly extracted from source
Loans		
Monetary Authority	RBF	
General Government	MOF	
Banks	RBF	
Other sectors	International Investment Survey conducted by the BOP Unit of FIBOS	
Currency and deposits		
General Government	MOF	
Banks	RBF	
Other sectors	International Investment Survey conducted by the BOP Unit of FIBOS	
Other Instruments		
General Government	MOF	
Monetary Authority	RBF	
Banks		
Other sectors	International Investment Survey conducted by the BOP Unit of FIBOS	

Valuation

All other investment instruments are recorded at the market value.

CHAPTER 15

RESERVE ASSETS

Introduction

Reserve assets are financial instruments readily available to, and effectively controlled by, the RBF for meeting BOP needs.

Classification

In Fiji's case, reserve assets comprise of the following:

- Monetary gold – gold owned by and held as reserve assets by the RBF.
- Special Drawings Rights (SDR) – SDR is an international reserve asset, created by the IMF to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas.
- Reserve Position in the IMF – this refers to the amount of SDR and foreign currency amounts readily available to a member country from the IMF, and the indebtedness of the IMF that is readily available to the member.
- Foreign Exchange – comprises foreign currency holdings and deposits etc
- Other Claims – residual category covering claims of non-banking financial institutions.

Changes in the level of holdings of official reserves are shown in the Fiji BOP as Reserve Assets, the fourth component of the Financial Account. Positive figures represent a fall in reserves over the previous year (decline in assets), while a negative figure indicates an increase in official reserves holdings over the previous year (increase in assets).

The table below shows the standard components and the data source of the Reserves Account

Table 15.1: Reserve assets

Standard components	Data Source
Reserve Assets	From the statement of assets and liabilities RBF
Monetary Gold	
SDR	
Reserve Position in the Fund	
Foreign Exchange	
Other Claims Non bank Financial Institutions investment abroad Others	

Valuation

Transactions in reserve assets are recorded at the market value.

CHAPTER 16

QUALITY OF DATA

Introduction

Quality of data is an important element that determines how beneficial the data is for the end-users. Data users can only produce useful interpretation/analysis of the data if data is:

- accurate, and not subject to large revisions;
- relevant so that the users can measure the concept in which they are interested;
- comprehensive in coverage,
- easily accessible; and
- timely.

The framework used by FIBOS in the compilation of the BOP statistics is based upon the recommendations contained in the fifth edition of the BPM5 produced by the IMF. The transition from the fourth edition to the fifth edition started in 2003 with assistance from the PFTAC. The IMF reviews of Fiji's BOP compilation has mainly aimed at gauging the accuracy of the BOP data.

The FIBOS attempts to make the BOP statistics as useful as possible, by providing finer details such as by instrument and by sector data, as per the BPM5 framework.

Factors influencing Quality

There are a number of factors that impact on the perceived quality of BOP statistics. These include:

- Timeliness
- Data collection method
- Time of recording
- Valuation
- Coverage
- Conceptual and methodological changes
- Technical expertise and staff issues

Timeliness

To meet the needs of decision makers and data users, FIBOS attempts to produce and release data on a timely basis, i.e. as per the Economic Statistics Division's advance release calendar posted on the FIBOS website. This does sometimes compromise with data quality, since it is not always possible to obtain complete or accurate data within the given timeframe, and hence FIBOS releases the data as "provisional" in such cases.

The FIBOS releases quarterly BOP data 3 months after the end of the reporting quarter, e.g. quarter 1 data is released at the end of quarter 2. Within this timeframe, the required

response rates for the surveys are generally achieved. If however the response rate is not achieved and it is seen that “sizeable units” have not responded, the release is held back. Under such circumstances, a release is issued informing the users of the delay and the new release date. At times, respondents provide estimated data, which then necessitates the statistics to be released as provisional. The provisional data gets revised when actual data are received.

Data collection methods

BOP data has various sources eg mail inquiries, administrative records, as well as estimation models when data are not readily available. Where data is estimated, they are subject to some error. For instance,

A data model is used for measuring Travel Credits every quarter:

Total Expenditure = Per diem⁸* number of visitors * average length of stay

The Total Expenditure is categorized by Business and Personal Travel and then posted to the trade in services worksheet under Travel.

The data that feeds into the data model are sourced thus:

- Expenditure by visitors gives the per diem and is based on the International Visitor Survey (IVS) which is conducted annually by the Ministry of Tourism. The survey collects expenditure eg accommodation, transport etc made by visitors. The mode of the survey is personal interview and takes place at the International Airport(s) in Fiji. In the absence of actual data, the last actual per diem is inflated:

Current per diem = Last actual per diem available * price index

- Price index is compiled using prices of commodities sold to visitors at hotels. The data are sourced from the Tourist Expenditure Survey of hotels conducted by the BOP Business Unit of FIBOS.
- Average length of stay is sourced from the Immigration Department.

It can be said that there is a discrepancy in the *average length of stay* and in *total spending by visitors* since the IVS uses FIBOS’ visitor arrival data to calculate their average length of stay but in calculating the total spending by visitors FIBOS use the IVS per diem spending, but their own estimate of visitor days.

Time of recording

Data is recorded when goods change ownership. However, because different data sources are used to compile BOP, there could be some differences in the time of recording of transactions.

⁸ Per Capita spending

Valuation

As with the time of recording, if different valuations are used in measuring the credit and debit entries, there will be both inaccuracies and imbalances in the account. Every effort is made to obtain data expressed in market values.

Coverage

It is difficult to some extent to fully cover all entities engaged in international transactions. The diverse range of service activities and a changing survey population place pressure on coverage. An estimation measure is used for the non-respondents in the survey list, and every effort is made to ensure that all new companies are included in the list. Nevertheless, failure to capture all transactions will produce some inaccuracy. For example, remittances inflows through informal channels and in forms other than cash are not recorded in Fiji's BOP.

Conceptual and methodological changes

The switch from BPM4 to BPM5 started in 2003, and as such, IMF consultants were requested to review the soundness of the compilation procedure. This switch and consultation process has resulted in revisions to the data series for some time. The latest revisions were implemented in 2007 following the latest review by the IMF technical assistant in September 2006. These types of changes are considered to improve the accuracy of the statistics and should not be seen to detract from their reliability.

Technical expertise and staff issues

The expertise of BOP compilers also impacts the quality of the data that is produced. Continuous training has to be provided to new entrants entering the workforce. All local and international BOP related training opportunities are taken up by FIBOS as and when available, so as to further enhance the BOP staff skills. However, given the changes brought about in BPM5, particularly for the financial account, the technical skills need further upgrade.

APPENDIX 1

DATA SOURCES USED IN THE COMPILATION OF FIJI'S BOP AND IIP STATISTICS

This appendix summarises the various data sources used in the compilation of the BOP and IIP components.

Source	Description	Contributions to BOP components
<i>Overseas Merchandise Trade Data</i>		
Overseas merchandise trade statistics	Overseas merchandise trade statistics provides data on all exports, broken down by domestic and re-exports, and imports. The International Trade Unit ⁹ of FIBOS provides published trade data which because of conceptual differences between the Trade and the BOP compilations has to be adjusted for use in the BOP.	<u>Current Account - Goods:</u> <ul style="list-style-type: none"> • General merchandise • Goods for processing • Repairs on goods • Good procured in ports by carriers • Non-monetary gold
<i>FIBOS Surveys</i>		
International Trade in Services Survey	International Trade in Services Statistics provides information on Fiji's import and export of services. It is compiled quarterly and is supplemented by an annual compilation.	<u>Current account - Services:</u> <ul style="list-style-type: none"> • Communication • Computer and Information • Construction • Financial • Government • Insurance • Personal, cultural and recreational • Other business • Royalties and license fees • Transportation • Travel
Survey of Non-Profit Organisations	This survey collects information from resident businesses on their transactions with non-residents. Businesses covered under the survey are trade unions, employers and professional organizations, political and religious organizations, and other organizations involved in social work with or without accommodation.	<u>Current account - Services:</u> <ul style="list-style-type: none"> • Professional or technical <u>Current account - transfers</u> <ul style="list-style-type: none"> • Gifts of food, consumer goods, medical etc • Cash grants <u>Current account - Income</u> <ul style="list-style-type: none"> • Compensation of employees • Interest received <u>Capital Account - transfers</u> <ul style="list-style-type: none"> • Grants received by the Non-profit organisations
Tourist Expenditure Survey	The survey collects data on expenditure by tourists on accommodation etc. The data are used for constructing a Tourist Expenditure Index, which is used for calculating the Tourism earnings.	<u>Current account - Services:</u> <ul style="list-style-type: none"> • Personal travel • Business travel

⁹ The International Trade Unit of FIBOS sources raw data in flat files from FIRCA.

Source	Description	Contributions to BOP components
Embassy survey	This survey collects data on embassy transactions such as embassies operating expenditure, capital expenditure, grants and other assistance provided in Fiji.	<u>Current account - Income</u> <ul style="list-style-type: none"> • Compensation of employees <u>Current account - transfers</u> <ul style="list-style-type: none"> • Embassy grants to Fiji <u>Capital Account - transfers</u> <ul style="list-style-type: none"> • Capital grants to Fiji
International Investment Survey	The survey collects information from enterprises on the foreign financial assets and liabilities of Fiji residents and associated income transactions. The survey of International Investment is used in the compilation of Fiji's balance of payments and international investment position.	<u>Current account - Income</u> Direct Investment Income <ul style="list-style-type: none"> • <i>Income on equity (dividend)</i> • <i>Income on debt (interest)</i> Portfolio Investment <ul style="list-style-type: none"> • <i>Income on equity (dividend)</i> • <i>Income on debt (interest)</i> Other Investment income <ul style="list-style-type: none"> • <i>Interest paid and interest received</i> <u>Financial Account</u> Direct Investment Portfolio Investment Other Investment
<i>Reserve Bank of Fiji</i>		
Overseas Exchange Transactions Data	<p>The OET data are used to measure a number of items in the BOP. OET records transactions that involve the exchange of the Fijian dollar for foreign currency and vice versa. Aggregate data are reported weekly by banks and foreign exchange dealers to the RBF, and FIBOS sources this data monthly from the RBF.</p> <p>OET are mostly used for items for which survey data are not available/impossible to obtain. Over the years, FIBOS has attempted to minimize the use of OET, by replacing possible data with surveys.</p>	<u>Current Account - Goods:</u> Repairs on domestic airline, bunkering, shipping, aircraft etc. <u>Current Account - Services</u> Freight, salvage earnings, education travel, travel debits, audiovisual and related services. <u>Current Account - Income</u> Personal receipts, interest on loans received by government/statutory bodies. <u>Current Account - transfers</u> Gifts, maintenance to individuals, gifts/donations by foreign governments/stat bodies, international agencies, maintenance of dependents overseas by residents. <u>Capital Account - transfers</u> Non residents transfer of funds overseas to meet expenses, pensions/superannuation benefits and migrant transfers. <u>Financial Account</u> Real estate receipts
Report of Commercial Bank	A consolidated report on commercial banks is obtained from the RBF. This report provides data on all BOP transactions of the commercial banks operating in Fiji.	<u>Current Account - Income</u> <ul style="list-style-type: none"> • Commercial Bank remitted/retained profits <u>Financial Account</u> Other Investment Assets <ul style="list-style-type: none"> • Loans and advances to non-residents • Foreign notes and coins

Source	Description	Contributions to BOP components
		<ul style="list-style-type: none"> • Other assets Liabilities <ul style="list-style-type: none"> • Commercial banks short term and long term liabilities
Statement of Assets and Liabilities of the Monetary Authority	A consolidated report is obtained from the RBF.	Reserves Assets components
Insurance data	A consolidated report on Fiji's insurance transactions with non-residents and vice versa is obtained from the RBF. It shows data on transactions such as gross premiums received from non-residents, bonuses paid, gross claims paid etc.	<u>Current Account - Services</u> <ul style="list-style-type: none"> • Insurance services <u>Current Account - Transfers</u> <ul style="list-style-type: none"> • Insurance -transfers
<i>Ministry of Finance & National Planning Office</i>		
Monthly State of National Report (SON)	Revenue and Expenditure, Loans drawdown and repayment, together with year to date actual.	<u>Current Account - services</u> <ul style="list-style-type: none"> • Government (peacekeeping revenue received) <u>Financial Account</u> Other investment Liabilities <ul style="list-style-type: none"> • Loans • Government drawdown and repayment
Grants: Statement of National Accounts & Budget supplements	Total cash grants received from abroad and total Aid in Kind received	<u>Current Account - transfers</u> <ul style="list-style-type: none"> • Cash grants (government) <u>Capital Account</u> <ul style="list-style-type: none"> • Aid in kind
<i>Other Sources</i>		
Fiji Sugar Marketing	Provides data on sugar exports to the EU. Fiji sugar is sold at a preferential price to the EU. The price received from the EU market is much higher than the price received from world market trade. The difference between the EU price received and the world market price is transfers from the EU to Fiji. As such, this amount is removed from exports data when compiling the goods balance. This is appropriately classified under current transfers in the current account.	<u>Current Account - Goods</u> BOP Adjustment <ul style="list-style-type: none"> • EU sugar transfers <u>Current Account - transfers</u> <ul style="list-style-type: none"> • EU sugar transfers

APPENDIX 2

FREQUENTLY ASKED QUESTIONS IN THE BOP AND IIP

This section attempts to provide simple explanations to some of the common questions asked on the BOP and IIP.

What is the BOP?

The BOP is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of a country with the rest of the world. For example, a corporate account of a business entity shows the transactions of the entity with all other companies, likewise, the BOP shows the transactions of the entire economy with the rest of the world. It shows transactions such as the exports and imports of goods and services, income earned/paid on investment, gifts (in kind and cash), foreign aid received, and all other international financial transactions. The standard components of the BOP are the current account, and the capital and financial account.

What is the current account?

The current account records trade in goods, services, income and current transfers. Trade in goods reflects movement of real resources to and from the rest of the world. This includes all goods that we buy from overseas (imports) and goods that we sell abroad (exports). Trade in services is the acquisition or performance of a service, such as transportation service, travel, business services. The income component records all income earned/paid on labor (compensation of employees), and or investment instruments (equity, bond holdings). Current transfers refer to real resources or financial items received for which no payment in return are done. These are given as gifts, or foreign aid. Transfers are considered as current if it does not result in the acquisition of a fixed asset, but increases the disposal income of a country.

What is the capital account?

The capital account records capital transfers i.e. foreign aid which results in acquisition of fixed assets, debt forgiveness and migrant transfers (household and personal effects of migrants).

What is the financial account?

The financial account records all transactions related to the financial assets or liabilities of an economy. It covers all transactions associated with flows of investment capital and changes of ownership in foreign financial assets and liabilities. The financial account is categorized into direct investment, portfolio investment, other investment and reserve assets.

What is meant by reserve assets?

Reserve assets are financial instruments available to the central bank (Reserve bank of Fiji) for financing BOP imbalances. Fiji's official reserve assets are held by the Reserve

Bank of Fiji and comprise of monetary gold, special drawings rights, reserve position in the IMF, foreign exchange and other claims.

How are the signs (positive and negative) interpreted in the BOP accounts?

Under the conventions of the system, a compiling economy records credit entries (+ve) for; (i) real resources denoting exports, (ii) financial items reflecting reductions in the economy's foreign assets (iii) increases in foreign liabilities. Conversely, debit entries (-ve) are made for; (i) real resources denoting imports, (ii) for financial items reflecting increases in assets (iii) decreases in liabilities. In simple terms, for assets, a positive figure indicates a decrease, while a negative entry indicates an increase. For liabilities, a negative figure indicates an increase, while a positive figure indicates a decrease.

In Fiji's BOP, the current and capital account entries (inflows and outflows) are based on natural sign convention, i.e. the entries are shown without the +ve or -ve signs. The net balances in the goods, income, services, current transfers and capital transfers however, are shown with a -ve sign when in deficit, while a positive balance indicates a surplus. For the financial account, increases in assets and reduction in liabilities are shown with a negative sign, while decreases in assets and increases in liabilities are shown with a positive sign. For example, (i) a negative entry for reserve assets indicates an increase in assets, (ii) a positive entry for foreign investment into Fiji indicates an increase in liability, (iii) while a positive entry for Fiji's investment abroad indicates a decrease in assets.

Why do we measure BOP?

The BOP is one of Fiji's key economic statistics and it is a measure of the country's overall performance. It shows important aspects of our economy, such as our performance in trade of goods, tourism earnings, investment flows, etc. As such, it is an important account for both local and international users.

Who needs the BOP data?

The major users of BOP are:

- The Fiji Government in its management of the economy through fiscal intervention
- The central bank for its monetary policy formulation
- Fiji media for news coverage, information to general public,
- Academics, students and general public (business community etc)
- International users (investors, analysts, credit rating agencies etc)

What is the IIP?

The IIP is closely related to the financial account of the BOP. The financial account records the flows of international assets and liabilities, while the IIP records the stock of financial assets and liabilities. As a member of the IMF, Fiji is obliged to report on its balance of payments and IIP position.

What is the IMF?

The IMF is the world's central organization for international monetary cooperation. It is an organization in which almost all countries in the world work together to promote the common good.

The IMF performs three main activities:

- monitoring national, global, and regional economic and financial developments and advising member countries on their economic policies ("surveillance");
- lending members hard currencies to support policy programs designed to correct balance of payments problems; and
- Offering technical assistance in its areas of expertise, as well as training for government and central bank officials.

Why change from BPM4 to BPM5?

The 5th edition of the BOP manual (BPM5) was introduced in 1993. This edition was a further upgrade of the 4th edition that was published in 1977. The revised edition reflects the many changes that have occurred in the global economy since then.

What are the differences between the above two editions of the BOP?

Under BPM4, the BOP account was divided into two sections; current account and capital account. The current account recorded merchandise trade, services, investment income and transfers; the capital account recorded direct investment, portfolio investment, other capital and reserve assets.

Under the BPM5, the BOP is divided into three sections: current account, capital account and financial account. The current account records goods, services, income and current transfers. The transfers have been revised to include only current transfers. The capital account records capital transfers and the acquisition and disposal of non-produced, non financial assets. The financial account records direct investment, portfolio investment, other investment and reserve assets.

How is aircraft leased from abroad treated in the BOP?

Firstly, when an aircraft is taken on financial lease, the real resource (aircraft) being brought into the country will be shown as an increase in imports in the trade component of the current account. The offsetting entry will be an increase in liability (loan) in the financial account. Financial leases are included under loans because the financial lease is the method by which the aircraft changes ownership. As and when the lease payments are made, these are recorded in the current account (interest portion) and the principal repayment is recorded in the financial account, thus reducing the liability.

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