

Annex II: Methodology of Compiling the Balance of Payments of the Kyrgyz Republic

1. Introduction

The balance of payments of the Kyrgyz Republic reflects the aggregate data on external economic transactions with other countries of the world for a certain period of time. These transactions, mainly conducted between residents and non-residents of the country, cover transactions with goods, services, incomes, and transactions with financial assets and liabilities.

The balance of payments is compiled in accordance with the fifth edition of the *Balance of Payments Manual*, worked out by the IMF.

The balance of payments of the Kyrgyz Republic is compiled by the National Bank of the Kyrgyz Republic and is based on data received from the National Statistics Committee of the Kyrgyz Republic, internal sources of the National Bank, commercial banks, the Ministry of Finance of the Kyrgyz Republic, the State Customs Inspectorate under the Ministry of Finance of the Kyrgyz Republic, the Ministry of Foreign Affairs, and other organisations and enterprises.

The laws On the National Bank and On Banks and Banking Activities in the Kyrgyz Republic as well as normative act of the Government and the National Bank of the Kyrgyz Republic provide for the legislative basis for collection of data and maintenance of their confidentiality.

The balance of payments is compiled on a quarterly basis in millions of US dollars in one quarter upon completion of a period under review. The balance of payments data are published in the quarterly publication of the Balance of Payments of the Kyrgyz Republic, monthly Bulletin of the National Bank, in the monthly publication of the National Statistics Committee *Social & Economic Situation of the Kyrgyz Republic*, and in the Annual Report of the National Bank. The Balance of Payments data are also submitted to the IMF for publications in the *Balance of Payments Statistics Yearbook* and in the *International Financial Statistics*.

2. Major Balance of Payments Compilation Rules

According to the definition of residence in the balance of payments, individuals residing or intending to reside in an economic territory of a country for a year or more are considered to be a resident, as well as legal entities engaged in production of goods and/or services in the country in significant volumes, or holding big land plots, possessing facilities and industrial units located in the territory of the republic.

In compliance with the balance of payments compilation rules each transaction is recorded in two entries, credit and debit entries. Financial transactions are reflected on the accrual basis, that is, the amounts to have been calculated, though might not have been paid in fact.

Table II.1. Major Balance of Payments Compilation Rules

Transactions	Credit, plus (+)	Debit, minus (-)
Goods and services	<i>Export of goods and services</i>	<i>Import of goods and services</i>
Income	<i>Receipt of income</i>	<i>Payments of income</i>
Transfers	<i>Receipts of transfers</i>	<i>Commitment</i>
Transactions with financial instruments	<i>Decrease in foreign assets</i>	<i>Increase in foreign assets</i>
	<i>Increase in foreign liabilities</i>	<i>Decrease in foreign liabilities</i>

One should note that in accordance with the above principle of a double entry, the sum of all credit entries should be equal to the sum of all debit entries, that is why an overall balance should be equal to zero. Though, in practice the balance of account is never equal to zero. The reason is that data used to compile the balance of payments come from various sources. For instance, information on exports of goods is formed on the basis of customs statistics, whereas those on foreign exchange earnings for exported goods comes from bank reporting. Thus, a non-zero balance as a result of the use of data from various independent sources is balanced by an additional item that is called *net errors and omissions* which is equal in its value to the above balance, but with an opposite sign.

3. Structure and Information Base for the Balance of Payments Compilation

Comprehensive information is used to compile the balance of payments, several sources of information being used at the same time to compile one item. Table II.1 gives a description of what data and from which sources are applied to compile the balance of payments of the Kyrgyz Republic.

The balance of payments transactions are accumulated in two major groups of accounts: a current account and a capital and financial account. The current account reflects transactions involving commodities, services, income, and current transfers. The capital and financial account consists of the capital account and the financial account, and shows how are the goods and services financed which are presented in the current account.

Trade Balance: The difference between the total volume of exports and imports of goods at F.O.B. value is the trade balance. Data on export of F.O.B. valued goods and on import of C.I.F. valued goods, based on customs information and information from enterprises, are provided by the National Statistics Committee. F.O.B. valued imports are estimated by the National Bank through an assessment of the share of transport and insurance costs of C.I.F. valued imports on the basis of findings of enterprise surveys carried out by the National Statistics Committee. Data on exports of goods are supplemented by the National Statistics Committee with data on goods procured by foreign airline companies in airports of the Kyrgyz Republic, while the data on imports of goods are supplemented with data on goods procured by national airline or railway companies in ports of foreign states. Import by “shuttle traders” for 1993-95 are estimated through multiplication of the number of passengers of charter flights by an estimate of an average quantity of goods imported by one “shuttle trader”. However, since 1996 the data from the State Customs Inspectorate on imports by “shuttle traders” have been incorporated in the balance of payments, while since 1997 this information has been supplemented with the data of the National Statistics Committee on unregistered trade by “shuttle traders”, that are formed as estimates based on surveys conducted at customs posts.

Services. Export of **transportation services** is calculated on the basis of data collected by the National Statistics Committee, separately by all types of transportation to cover railroad, air, road transportation services, from respective transportation organisations and departments, and data collected from the banking statistics. Import of transport and insurance services connected with freight service is estimated as the share in import at C.I.F. prices as it mentioned in the section “Trade balance”. This also covers data on export/import of services (transportation of gas), provided by the public enterprise “Kyrgyzgas”, as well as data from large enterprises, departments, and data from the statistics agency and as well as information on profit and expenditures of airline companies in the Kyrgyz Republic. Till 1999 the item “**Travels**” on imports showed expenses of tourist companies abroad, and on exports it showed income of rest houses, holiday camps received from non-residents (taking into consideration the data received from commercial bank reports). Since 1999 the item “Travels” is estimated in compliance with the methods based on the number of residents arriving (leaving) the republic. Data on **Construction Services** are also collected by the National Statistics Committee from enterprises attracting non-resident construction companies and from construction companies providing their services abroad and also by big joint ventures. Data derived from banking statistics of commercial banks that provide or receive financial services and the data on receiving the financial services by the National Bank are reflected in the **financial services item**. The banking statistics at present is considered to be the most complete and in-depth source **of information on computer and information services**. **Government Services** include data on expenses on maintenance of embassies and representative offices of the Kyrgyz Republic, collected by the National Bank from its internal sources and the Ministry of Foreign Affairs; information on expenses on maintenance of foreign embassies and representative offices in the Kyrgyz Republic, collected by the National Bank on the basis of the banking statistics. The National Statistics Committee and the National Bank collect the data on **business services** from enterprises that receive or render such services. Data on import of services in the **Technical assistance**, item are found in the IMF estimates and on data of organizations on unpletion of investment projects. **Other services** include services that were not covered by the above mentioned items and the source of this item is the National Statistics Committee data collected from enterprises and the banking statistics.

Income. This item includes payments and receipts for utilisation or provision of production factors, namely, labour and capital, and is divided into two accounts: labour remuneration and investment income. Employees compensation includes wages and salaries received by non-residents from residents of the Kyrgyz Republic, or vice versa. Direct, portfolio, and other investment income include receipts and payments on external financial assets and liabilities of residents. Data on portfolio investment income are collected from both internal sources of the National Bank, and commercial banks. Data on

other investment income are collected from internal sources of the National Bank (interests on IMF loans and loans served by the National Bank), from the Ministry of Finance (interests on state credits) and from enterprises (interests on non-public credits). Data on compensation of employees are collected by the National Statistics Committee and by the National Bank from enterprises that hire foreign employees.

Transfers. Transfers are identified as current transfers reflected in the current account, and capital transfers reflected in the capital account. **Capital transfers** include the following: the transfer of ownership of a fixed asset; the creditor's repudiation, the transfer of cash related to the acquisition or selling of a fixed asset; transfers related to migration of the population reflected as offsets to flows of property and financial assets that accompany movements of migrants when they change their residence. All other types of transfers are referred to **current transfers**. The typical example of current transfers for our country is humanitarian assistance recorded once in the balance of payments as a debit entry from import of commodities, then – as a credit offset entry for transfers. Current official transfers are commodity grants and technical assistance, as well as contributions to the funds of international organisations. Data on humanitarian assistance together with imports data are obtained from the National Statistics Committee. Assessments of technical assistance is based on data from the IMF and State Committee for Foreign Investments and Economic Assistance, and international organisations. Data on contributions to the funds of international organisations are collected by the National Bank from the Ministry of Finance. Private current transfers are represented, mainly, by cash transfers of the population to and from abroad, the data on which are collected by the National Bank from the Ministry of Transport and Communication and banking statistics. To assess capital official transfers, the National Bank singles out capital goods from the total volume of commodity grants, the data on which is obtained from the National Statistics Committee. Till 2000 the assessment of transfers of migrants was made by the National Bank on the basis of the number of migrants obtained from the National Statistics Committee and through the assessment of the average value of assets exported by migrants. Since the beginning of 2000, the assessment of transfers of migrants has been made on the basis of methods worked out by the National Bank together with the National Statistic Committee adjusted to all kinds of exported assets and properties of migrants calculated on the basis of their average cost by the republic.

Financial Account. The Financial Account includes transactions resulting in an increase or decrease in foreign assets and liabilities of residents. So far as a resident may procure a foreign financial asset not only from a non-resident, but from a resident as well, the financial account may reflect transactions with foreign assets between residents. Transactions by each type of assets are registered on a net basis in the financial account. Thus, its entries reflect a net aggregate change for a certain period in all positive and negative transactions with assets or liabilities of a given type. The net decrease in total assets and the net increase in total liabilities are registered as a credit entry, while the net increase in assets and the net decrease in liabilities – as a debit entry. Components of the financial account are classified by their functional features and are divided into direct investments, portfolio investments, other investments, and reserve assets.

Direct Investments are investments by individuals and legal entities of one country (a direct investor) in order to participate in management of an economic enterprise of another country (an enterprise with direct investments). Not only capital investments of the direct investor as a participation in ownership capital of the enterprise, but also all other forms of investments between the direct investor and the direct investment enterprise are classified as direct investments. Credits provided by the direct investor to the direct investment enterprise also considered as direct investments could serve as an example. Direct investments are subdivided into investments abroad, or in the domestic economy. Data on direct investments are received by the National Bank from the National Statistics Committee that collects this information from joint ventures and foreign enterprises, as well as directly from some large-scale joint enterprises. In this connection, reports of commercial banks are used for this purpose as well. Data on direct investments to the banking sector are furnished to the National Bank through reports of commercial banks.

Portfolio Investment reflect transactions with securities and debt securities, which are traded only for the purpose of earning income. A conventional criterion to distinguish the direct investments and portfolio investments is stock ownership by an investor of 10 or more per cent of ordinary shares of an enterprise. Portfolio investments are classified, in their turn, as transactions with assets and liabilities, as well as by the type of the financial instrument (securities, ensuring participation in capital, and debt securities). Data on portfolio investments are obtained by the National Bank from its internal sources, from commercial banks, the National Commission for Securities Market, and large joint ventures.

Financial Derivatives are financial instruments, whose functioning conditions “are tied” to some other financial instruments or characteristics (such as foreign exchange, government bonds, price indices for shares, interest rates, etc.) or to any stock exchange goods (gold, sugar, coffee, etc.), which might be purchased or sold later. The financial derivatives provide to owners formerly agreed rights to receive definite assets on fixed term in future, e.g. in the form of cash, primary financial instrument, etc. Options (currency, interest, commodity, etc), circulating financial futures, warrants, and such instruments, as agreements on currency or interest swaps are the derivative financial instruments. Transactions with derivative instruments are segregated into a separate group of operations (mainly financial), their accounting is done separately from registration of operations with those securities or goods, which underlie the derivative contracts and to whose characteristic features they “are tied”. In the balance of payments of the Kyrgyz Republic, the financial derivatives are produced by hedging the gold price and the data on them are submitted by the enterprises.

Other Investments are classified as transactions with assets and liabilities and include credits, creditor and debtor indebtedness, deposits and foreign exchange in cash, and other assets and liabilities not included in the previous categories.

Data on foreign assets/liabilities of commercial banks are collected by the National Bank from reports of commercial banks. Data on foreign loans received or guaranteed by the Government, as well as information on servicing them, are collected by the National Bank from the Ministry of Finance. Information on loans serviced by the National Bank is received from its internal sources. Data on non-public loans are collected from enterprises, beneficiaries of these credits. Data on creditor and receivables of resident enterprises (trade credits) are received by the National Bank from the National Statistics Committee, which collects these data from enterprises. Data on accounts of enterprises abroad is collected by the National Bank from enterprises. Data on other assets, representing, mainly, contributions of Kyrgyzstan to the funds of international financial organisations are received by the National Bank from the Ministry of Finance and its internal sources.

So far as the balance of payments statement is compiled on an accrual basis, principal and interest for repayment on credits reflect accrued amounts for a certain period, though these amounts could be overdue, that is not paid in time. The difference between accrued and actually paid amounts is reflected in the item “Other Investments” as changes in outstanding. In case of rescheduling of outstanding as a new loan, the balance of payments statement reflects a reduction in outstanding and the restructuring of debt as a new loan.

Reserve Assets comprise foreign assets of the National Bank of the Kyrgyz Republic that may be used to finance the balance of payments deficit. The balance of payments reflects changes in reserve assets related to transactions with monetary gold (transactions only between the National Bank and foreign monetary authorities), SDR, assets in freely convertible currencies, liquid foreign securities, and with other foreign liquid assets. Data on reserve assets and IMF loans, as well as on other assets and liabilities of the National Bank reflected in the balance of payments are based on information obtained from internal sources of the National Bank.

4. The Balance of Payments Presentation Formats

The balance of payments of the Kyrgyz Republic is compiled according to standard and analytic formats of presentation.

Standard Format of presentation (Annex I. Table I.1) is characterised by reflection of all of the items of the balance of payments either in two columns, separate for credit and debit entries, and the total amount of credit entries as equal to that of the debit entries including errors and omissions, or in the balanced format. The standard format of presentation shows that the total balance of payments is always equal to zero.

Under the **Analytic Presentation** (Table 1) all items are balanced. The total balance of payments is formed as the sum of certain items which are calculated proceeding from characteristic features of a particular country. These items should reflect transactions which are conducted autonomously (that is, they meet their own purposes), thus influence on the size of the total balance of payments. These items are called above the line items. All other transactions recorded in the “below the line” item are conducted to finance this balance of payments. These transactions are forced, dependable, and are related to regulatory actions of the National Bank and the Government. Thus, the balance of payments involves a certain degree of subjective judgement, though, nevertheless, it enables to measure the value of the balance of payments, and to identify financing needs.

Table II.2: Sources of Information Used by the National Bank for Compilation of the Balance of Payments of the Kyrgyz Republic

Items of the Balance of Payments	Sources of information	Contents of information
Current account		
Commodities		
Export of goods (f.o.b.) export	NSC	data on export of goods (f.o.b.) based on SCI data and enterprises
commodities purchased in ports	NSC	data on export of bunker fuel based on reports of enterprises according to form 1-services
nonmonetary gold	NSC	data on export of the nonmonetary gold based on SCI data
Import of goods (f.o.b.) import (c.i.f.)	NSC	data on import of goods (c.i.f.) based on SCI and enterprise data
value adjustment	NSC, NBKR	NBKR estimate of the share of transport and insurance services in import at c.i.f. prices on the basis of survey of enterprises
commodities purchased in ports	NSC	data on import of bunker fuel based on reports of enterprises according to form 1-services
Services		
Transportation services	NSC, CB	data on enterprise reports according to form 1-services and the NBKR assessment of the share of transportation costs in import at c.i.f. prices based on surveys of enterprises; data based on banking statistics on transportation services
Travels	NSC	estimate in compliance with the methodology based on the number of residents arriving (leaving) in the Republic (from the Republic)
Communication services	MTC	data on international communication services according to reporting form 1-services (communication)
Construction	NSC, enterprises	data of enterprises enjoying services of non-resident construction companies according to form 1-INSU and from construction organizations rendering services abroad according to form 1-MSU; data from some large enterprises
Insurance services	NSC, enterprises, CB	NBKR assessment by the share of costs in import at c.i.f. prices on the basis of surveys of enterprises; data from enterprises and banking statistics
Financial services	NBKR, CB	NBKR data on rendering and receiving of financial services; data from banking statistics
Computer and information services	CB	data on information and computer services based on banking statistics
Government services	MFA, CB	data on maintenance expenses of the KR representative offices abroad; data on expenses of foreign representative offices in the KR

Table II.2: (continued)

Items of the Balance of Payments	Sources of information	Contents of information
Business services	NSC, CB, enterprises	data on other business technical services, collected from enterprises according to reporting form 8VES-services; data from some large enterprises
including technical assistance	IMF, MF	estimates on technical assistance being received, data of organizations, which incarnate investment projects
Other services	NSC, CB	data on other services collected from enterprises according to reporting form 8 VES-services; data on other services from banking statistics
Income		
Employee compensation	NSC, CB, enterprises	data of enterprises on non-resident employee compensation, paid to residents going abroad ; data from banking statistics on transfers abroad
Income on investment		
Income on direct investment	NSC, CB	data on direct investment income collected from joint ventures and foreign enterprises according to reporting form 1-SP; data from banking statistics on direct investment income
Income on portfolio investment	NBKR, CB	data on income of nonresidents earned from investment in the KR securities; data from banking statistics on transactions with securities
Other investment income		
Interest on loans		
Monetary authorities	NBKR	data on interest on IMF loans
General government	MF, NBKR, enterprises	data on interest on credits to the public sector; data from enterprises on interest on Government-guaranteed loans
Banks	CB	data of banking statistics on interest on interbank loans
Other sectors	Enterprises	data on interest on loans to the private sector
Other investment income	NBKR, CB, enterprises	data on profit and expenses of the NBKR, relating to international reserve management; incomes of CB and enterprises from assets abroad
Current transfers		
Humanitarian aid	NSC, enterprises	data on rendered humanitarian aid based on SCI data
Technical assistance	IMF	estimates of technical assistance being received
Other grants	NBKR	data on grants in cash
Contributions to international organizations	MF	data on payments made to international and CIS organizations
Workers' remittances	MT&C, CB	data on household postal-telegraph transfers abroad and from abroad according to form 1-services (communications)

Table II.2: (continued)

Items of the Balance of Payments	Sources of information	Contents of information
Current and financial account		
Capital transfers		
Commodity grants	NSC	estimate of the share of capital goods in the total volume of commodity grants
Migration related transfers	NSC	NBKR estimate of migrants' transfers based on NSC data on the number of arriving and departing migrants
Forgiveness of debt	Enterprises	data of enterprises on debt service, to non-residents
Direct investment		
Abroad	CB	data from banking statistics on residents' direct investment abroad
To the Kyrgyz Republic	NSC, CB, enterprises	data on direct investment collected from joint ventures and foreign enterprises according to reporting form 1-SP; data from banking statistics on direct investment into the banking sector; data of some large joint ventures
Portfolio investment		
Promissory notes	NBKR, CB, SCSM	data on purchase and redemption of the KR securities by non-residents; data from banking statistics on transactions with securities
Financial derivatives	Enterprises	data of enterprises on transactions with financial derivatives
Other investment		
Assets		
Money in cash and deposits		
Banks	CB	data from banking statistics on foreign assets of commercial banks
Other sectors	Enterprises	data on balances of resident enterprises on accounts of banks abroad
Trade loans	NSC	data on mutual settlements of enterprises (debtors' indebtedness)
Other assets		
Monetary authorities	NBKR	data on the NBKR foreign assets not included in reserves
General government	MF	data on payments to international organizations
Liabilities		
Money in cash and deposits		
Banks	CB	data from banking statistics on foreign liabilities of commercial banks
Trade loans	NSC	data on mutual settlements of enterprises (debtors' indebtedness)
Loans		
Monetary authorities	NBKR	data on IMF loans
General government	MF, NBKR, enterprises	data on loans received/repaid by the public sector or under guarantee of the Government
Banks	CB	data from banking statistics on loans received by commercial banks
Other sectors	Enterprises	data on loans received/repaid under no guarantee of the Government
Overdue debts	MF, CB, enterprises	data on overdue payments
Reserve assets	NBKR	data on international reserves and their structure