

THE COVERAGE OF THE “OTHER GOODS AND SERVICES INCOME” ITEM IN THE BALANCE OF PAYMENTS STATEMENT AND EXPLANATIONS REGARDING THE MEASUREMENT PROCEDURE

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I- Introduction

In a broad sense, the balance of payments is a statistical statement that systemically records, for a specific time period, the economic transactions of an economy, involving the trade of goods and services, between residents (central government, banks, real persons, legal entities and institutions) and non-residents as well as the financial claims on, and liabilities to the rest of the world, at the time of a change in ownership, based on the principle of double entry book keeping system.

In conformity with the concept and recording principles established by the International Monetary Fund (IMF), the balance of payments statement, which is published by the Central Bank of the Republic of Turkey, is compiled on the basis of data furnished by banks operating in Turkey and data on foreign trade and surveys for travel and shuttle trade furnished by the non-banks.

On the other hand, due to the liberalization of the exchange rate regime and the diversification of economic activities and financial instruments; methods, which are developed with respect to the survey results, are adopted in the classification of some specific items constituting the "Other Goods and Services Income".

The coverage of this item, difficulties in decomposition, related solution oriented studies and the estimation method is discussed **here below**.

II- The Coverage of Other Goods and Services Income

"Other Goods and Services Income", which is under the Current Account Balance in the balance of payments "Summary Presentation" published by the Bank, is classified into three broad categories Travel, Interest and Other. Of these, the components that constitute the other item are presented here below:

Other Income

- Freight Income (Transportation income associated with export and import transactions)
- Other Transportation Income (Income receipts on passenger transportation, luggage and alike)
- Direct Investment Earnings (Income receipts on construction services abroad)
- Other Official and Private Goods, Services Income
 - Foreign Exchange Purchases against Turkish Lira From Foreign Exchange Deposit Accounts Of Residents (Income converted into Turkish lira from the FX accounts that are opened via invisible transactions income)
 - Official Sector (Income receipts of the embassies and similar public sector)

- Financial and Foreign Trade Services (Income receipts on commission services and banker's transactions and other services income associated with foreign trade)
- Other (Income from abroad in the form of remittance that **cannot** be categorized on an activity basis albeit invisible transaction income)

III- The System of Recording "Other Income" and Related Examples

With respect to the recording methodology, "Other income" is categorized as follows:

- a) **Transactions reported by the banking system on an activity basis:** These data are obtained through declaration on activity basis during the direct conversion of foreign exchange gained by these activities into Turkish lira.

Example: If a firm, which renders transportation services abroad, declares the transaction on an activity basis in converting the income receipts (denominated in foreign currency) to Turkish lira, these receipts will be coded as "Freight" by the banks. Moreover, if FX accounts are held with these receipts and subsequently amounts from these accounts are converted into Turkish lira and if this is declared, it will be coded and reported as "Freight".

- b) **Transactions, that are not reported on an activity basis by the banking system, albeit known to be invisible income items:** These transactions consist of the foreign exchange that comes from abroad and converted into Turkish lira by the bank and which cannot be reported on an activity basis as no declaration requirements exist within the framework of the liberalizing foreign exchange regulations albeit invisible transaction income on the basis of the activity of the account holder.

Example: If a firm, which renders transportation services abroad, does not declare the nature of the transaction in converting the income receipts (denominated in foreign currency) to Turkish lira, banks code these receipts as "Other" rather than "Freight".

- c) **Transactions that involve the conversion of foreign exchange into Turkish lira from the FX accounts held with the banks:** These transactions consist of the foreign exchange that is converted into Turkish lira from the FX accounts of the residents in Turkey and that can not be categorized albeit known to be partly invisible transaction income.

IV. The Problem of Decomposition and the Current Approach

The identification and decomposition of income associated with the invisible transactions has become complicated in Turkey as in the other countries due to:

- Liberalization of foreign exchange importation by Decree No. 32 regarding the Protection of The Value of The Turkish Lira,
- Deregulation involving the treatment of FX accounts,
- Void of any obligations to bring the invisible transactions income inwards and convert into Turkish lira,
- Void of any obligations to declare the nature of the activity involving the foreign currencies that are converted into Turkish lira.

Although there is no difficulty pertaining to the items which can somehow be categorized on an activity basis, surveys have been conducted within banks at various times to enable the categorization of the "foreign currency converted into Turkish lira from the FX accounts of residents in Turkey" that have a significant share in the banking system. In the aforementioned surveys, the source of the FX accounts held by residents in Turkey from which foreign exchange is converted into Turkish lira has been sought to be determined on the basis of the activity of the account holders with respect to the addresses of the account holders. These kinds of foreign exchange accounts are mostly held in return of,

- Foreign exchange held for the purpose of saving (domestic savings)
- Foreign exchange returns on exports
- Workers' remittances
- Income receipts on travel
- Income receipts on construction services abroad
- Freight income on foreign transactions
- Foreign exchange receipts of shuttle trade

Of these, export returns, travel and shuttle trade receipts which are based on the data furnished by other sources and which are already included in the related income items of the balance of payments is excluded to avoid double-counting and the portion that is associated with domestic transactions is excluded as that portion is not the subject of the balance of payments. Construction services abroad, which is in the remaining part is added to Direct Investment Earnings by the determined ratio, and the residual is added to Other Official and Private Goods and Services Income.

V. Evaluation and Comparison with Other Countries

As indicated above, the most significant items in the "Other Official and Private Services Income", which consists of four items, are "Foreign Currency Converted into Turkish Lira From Foreign Exchange Accounts Of Residents" and "Other" with respect to the amounts. The increase in the "Foreign Currency Converted into Turkish Lira

from Foreign Exchange Accounts of Residents” stems from the fact that the yield of TL investment instruments has been higher than as that of the foreign exchange and real and legal persons meet their TL needs from these accounts. The “Other” item represents income that can not be identified on an activity basis by the banks due to the regulations albeit invisible transaction income.

To detect whether the figures that are embodied in the balance of payments and recorded under the “Other” income, as they can not be categorized, are high; the same item of some countries has been compared for the 1990’s.

Accordingly, while the ratio of “Other” income, which can not be categorized on an activity basis, to total invisible transactions income (excluded are freight, other transportation and travel) has been 50 % in Germany and Spain, 60 % in Italy, 95 % in Greece, 80 % in Korea over the past 7-8 years, this ratio is approximately 70 % in Turkey.

VI. The Revision of the Approach

The rapid growth of the item “Conversion of foreign currency into Turkish lira from the foreign exchange accounts of residents in Turkey held for the purpose of saving” over the last years has entailed the ratios, which are utilized in the decomposition, to be revised; as the item, which is reported by the banks, has a significant share in the Other Private and Official Services Income that is recorded under the Other Goods and Services Income in the balance of payments. Therefore percentage distribution based on the activity of the account holder and type of transaction regarding the foreign currencies converted into Turkish lira from the foreign exchange accounts has been verified again through a sampling method in which the related branches of the banks, which represent the 62 % of the total with respect to transactions involving the conversion of foreign currencies into Turkish lira from the foreign exchange accounts in 1999, are included in the sample space. Moreover, reporting errors, which were detected in the meantime, have been corrected.

VII. Discussions with the IMF and Recommendations

As mentioned above, the recording methodology of balance of payments is based on the standards and principles that are established by the IMF for all countries and the items of some specific countries, which are not included in the standard definitions, are reflected in the balance of payments within the framework of a compatible classification in line with the considerations of the IMF balance of payments specialists. Thus, the intended changes associated with the balance of payments are undertaken in conformity with the IMF specialists.

Within the context, meeting was held with the IMF on the difficulties faced in the compilation of the balance of payments and the survey results, aiming to overcome some of the difficulties.

During the aforementioned meeting; the results of the survey, which had been conducted by the Bank, were discussed with the IMF authorities and in line with the viewpoint of the Bank, a consensus has emerged on the following issues;

- Conducting periodic surveys annually, preferably quarterly to enable the more precise reflection of the seasonal and conjectural changes in the balance of payments,
- Adjustment of the figures for a year or two years earlier regarding the results of the survey conducted in May 1999.

All of these views and recommendations have been indicated in the May 21, 1999 dated "Office Memorandum" that is prepared and delivered to the Bank by the IMF.

As a result, in line with the aforementioned survey results and discussions with the IMF, the figures of 1998 have been revised as follows; Other Goods and Services Income - "Other" has fallen to 16.144 million US dollars from 17.044 million US dollars, Current Account Surplus has fallen to 1.871 million US dollars from 2.692 million US dollars despite the net positive change of 78 million US dollars made by the State Institute of Statistics regarding the foreign trade statistics, Net Errors and Omissions item, which has a negative sign, has narrowed decreasing to - 2.197 million US dollars from -3.018 million US dollars.