Description and definitions of Canada's balance of payments accounts

Canada's balance of payments (BOP) statistics provide information about this country's economic transactions[1] with non-residents, allocated between the current account and the capital and financial account.

The **current account** records transactions covering goods and services, investment income and current transfers. Transactions in exports and interest income are examples of receipts, while imports and interest expense are payments. The balance from these transactions determines if Canada's current account is in surplus or deficit.

When in deficit, the current account balance shows the extent to which Canada is drawing on the resources of the rest of the world for current consumption and investment; when in surplus, it shows the extent to which Canada is providing such resources to the rest of the world.

Current transfers, unlike other elements of the BOP, are offsets to transactions for which there is no quid pro quo. For example, current transfers take the form of donations, official assistance or gifts. Capital transfers, which are part of the capital account, include migrants' funds and debt forgiveness of the federal government.

The **capital and financial account** is mainly comprised of transactions in financial instruments which represents Canada's financing and investing activities with the rest of the world. Financial assets and liabilities with non-residents are presented under three functional classes: direct investment, portfolio investment and other investment. These investments belong to either Canadian residents (Canadian assets) or to foreign residents (Canadian liabilities). Transactions resulting in a capital inflow are presented as positive values while capital outflows from Canada are shown as negative values.

A current account surplus or deficit should correspond to an equivalent outflow or inflow in the capital and financial account. In other words, the two accounts should add to zero. In fact, as data are compiled from multiple sources, the two balance of payments accounts rarely equate. As a result, the **statistical discrepancy** is the net unobserved inflow or outflow needed to balance the accounts.

Current account

The current account consists of transactions in goods and services, in investment income and in current transfers, made with non-residents.

Goods and services

The exports of goods and services are included with the current account receipts while the imports of goods and services are part of the current account payments.

Goods

Exports and imports of goods are valued at the border of the exporting economy. This means that the price of goods includes transportation costs to the border. These inland freight charges are recorded as an adjustment to the customs trade data. The goods category also includes all goods that cross the border to be processed.

1. *The transactions are presented using a double entry system. A plus sign (+) is used for an export or for a financial inflow arising either from a decrease in assets or an increase in liabilities. A minus sign (-) appears with an import or a financial outflow arising from an increase in assets or decrease in liabilities.*

Data for the compilation of goods trade are based on Canadian customs documents, as well as U.S. customs imports documents from Canada for Canadian exports[2] to the United States. Customs records are processed and published by the International Trade Division (ITD)[3] of Statistics Canada. However, certain adjustments in terms of valuation, residency, timing, and coverage are made to align customs series with BOP concepts and conventions within the framework of the National Accounts. An important BOP concept is to show ownership change with non-residents, whether the change takes place when goods cross a customs frontier or when goods are exchanged with non-residents within an economy.

BOP adjustments are made, for example, to include transactions of **gold** located in Canada between residents and non-residents in Canada, and hence generate no customs records. (Monetary gold is recorded under the financial account in the BOP, and gold for further processing is part of the goods category).

Another instance of adjustment for ownership change lies with the **allocation of country of import**. Imports on a customs basis are allocated to the country of origin (this treatment was adopted in 1988 with the introduction of the international Harmonized Commodity Description and Coding System, or HS). For BOP purposes, however, the country of last shipment is believed to better reflect the notion of ownership change.

Adjustments for **wheat and other grains** consist of replacing customs data on these goods by volume data on clearances obtained from the Canadian Grain Commission (CGC), these are believed to more accurately reflect the movement and ultimate destination of Canadian grains. In the case of wheat, these volumes are coupled with price data from 1981 to 1992 based on data from the Agriculture Division of Statistics Canada in order to more closely reflect transaction values. A global transaction price for wheat is incorporated in the customs series from 1993, so that only an adjustment for CGC volumes will now be required at the global level.[4] Since reference year 1999, CGC volumes are also used by ITD, leading to smaller adjustments to BOP values.

Trade data on various **energy products** require particular treatment for coverage and timing. Canadian exports of natural gas exported to the United States by pipeline continued to be derived from Canadian sources because the latter are viewed as more reliable than U.S. imports from Canada. For crude petroleum, exports and imports on a customs basis are further adjusted by the Balance of Payments Division with information obtained from the Industry Division at Statistics Canada in order to produce more complete or current estimates.

For **automotive products**, deductions were made until 1988 from both exports and imports for special tooling and other charges recorded from time to time on customs documents. Beginning in 1988, the adjustments were removed-in line with U.S. practice, which excludes such transactions from goods trade. These charges are recorded as commercial services for BOP purposes. Further examination has led to additional adjustments made after 1985 for certain over- or undervaluation in customs data.

Other adjustments cover a wide range of entries. Some are made to reported trade data to include inland freight between plant and border, or to reflect transaction prices (deductions from exports to cover discounts or handling charges for forestry products is a case in point).

From time to time, adjustments are made to provide users with the latest estimates or to serve as interim values while further examination is carried out. On the basis of goods-trade reconciliation studies with Japan and the European Union, Canadian exports on a customs basis have been taken as understated in relation to counterpart imports for various countries other than the United States. A general coverage provision was accordingly applied from 1986. Further major additions for the undervaluation of goods exported to other countries than United States were made in 2001 and in 2002, beginning with the reference year from 1997 and 1998, respectively. (See 'Annual Revisions' in Highlights section of the First Quarter 2001 and First Quarter 2002 editions of this publication.) Following other

2. *Prior to 1990, exports to the United States were compiled from Canadian customs documents and were reconciled with U.S. imports from Canada. This gave rise to certain reconciliation adjustments that were applied at the time by the Balance of Payments Division to the Canadian customs exports. Starting in 1990, most of these reconciliation adjustments were no longer needed as Canadian exports were measured directly from U.S. customs imports from Canada. Modifications to BOP adjustments associated with the data exchange are noted in Canada's Balance of International Payments, First Quarter 1990, Catalogue no. 67-001-XPB, p.13.*
3. *For additional details on recording of merchandise trade, please consult any of the following publications: Summary of Canadian International Trade (HS-based), Catalogue no. 65-001-XIB; Exports by Country (HS- based), Catalogue no. 65-003-XPB; Exports by Commodity (HS-based), Catalogue no.65-004-XPB; Imports by Country (HS-based), Catalogue no. 65-006-XPB; or Imports by Commodity (HS-based), Catalogue no. 65-007-XPB.*
4. *Except for relatively small flows to the United States from 1993, where U.S. customs imports are used without adjustment.*

studies made in collaboration with Canadian Customs and Revenue Agency (CCRA), the undervaluation of exports are re-estimated annually.

A different provision has been added from the first quarter of 1998 to non-U.S. exports. Its purpose is to estimate for customs documents expected but not yet received in the current period. An adjustment was made from 1996 for duplication of custom software already classified and covered in services imports, and for undervaluation of prepackaged software exports.

Services

In May 1996, all services definitions were restated according to international norms first issued by the International Monetary Fund (IMF) in 1993 and extended jointly by the IMF, the Organisation for Economic Co-operation and Development (OECD) and the statistical arm of the European Union, Eurostat. In 2002, the *Manual on Statistics of International Trade in Services* was published jointly by six international organizations. This manual sets out an internationally agreed framework for the compilation and reporting of statistics on services. The manual's recommendations are consistent with those established in 1993 by the IMF.

The redefined services are summarized in the Canadian data under four headings: travel, transportation, commercial and government services. More detailed descriptions appear in *Canada's International Trade in Services*, Catalogue no. 67-203-XIB.

Travel covers all receipts and payments arising from travel of less than one year between Canada and other countries and for travel of a year or more for educational or health purposes. Travellers of a year or more are otherwise treated as residents of the country to which they travel, except for diplomats and military personnel on postings abroad. These representatives, even if their stay is a year or more, are always considered residents of their home countries, and their living and other expenditures abroad fall under government services.

Travel is subdivided into travel for business purposes and travel for personal reasons. It covers outlays such as accommodation, food and entertainment, as well as goods for personal use.

Transportation services cover receipts and payments of persons and goods by air, water and land, together with supporting services for the various modes of transport.

Receipts cover passenger fares received by Canadian carriers (primarily air) from non-residents; services of carriers operated by Canadian residents (ocean ships, lake vessels, aircraft, rail and trucks) that transport goods exports beyond the borders of Canada; carriers operated by Canadian residents engaged in the transportation of commodities between foreign countries, including in-transit movement and transit between U.S. points via Canada; income from the charter of resident vessels; and port expenditures in Canada by non-resident air and shipping companies.

Payments cover passenger fares paid to non-resident carriers (chiefly air) by Canadian residents. The data also include most outlays on cruises although such outlays should in principle be assigned to travel. Payments also cover the transport by non-resident carriers of imports into Canada; the transport of Canadian commodities in transit through the United States, in particular oil and natural gas; the charter of foreign vessels; and port expenditures abroad by Canadian resident air and shipping companies.

For presentation, the data are segmented into water transport, air transport and other transport. The latter includes estimates that recognize earnings by Canadian and U.S. domiciled truckers for the transport of goods in the other's country.

Receipts and payments on **commercial services** are currently produced for some 26 individual categories based on current international categories for reporting services trade. Each category is presented according to the broad country grouping with which the transactions are conducted, and according to whether the transactions are carried out with a foreign affiliate or a foreign non-related party. Also, the categories are presented according to their general industry category.[5]

5. *Based on the North American Industry Classification System (NAICS) 2002.*

Categories presented in standard tables consist of 15 main types of services with further breakouts for six of these. Covered are communications; construction; insurance; other financial services; computer services and information services. Also shown as main types are royalties and licence fees; non-financial commissions; equipment rentals; management services; advertising; research and development; architectural; engineering and technical services; and miscellaneous services to business together with audio visual, personal, cultural and recreational services.

The survey data are collected net of withholding taxes, with the tax re-allocated to applicable royalty categories. The published data are inclusive of withholding taxes.

Provisions for commuter and seasonal worker remuneration as own account service providers are entered here as well: insufficient data precludes their articulation as labour income.

Government services cover international transactions arising from government activities (diplomatic, commercial and military) not covered elsewhere in the BOP. Receipts chiefly consist of expenditures in Canada by foreign governments. Payments mainly cover expenditures abroad of both the Canadian federal and provincial governments and, from 1997, new coverage has been added for immigration fees. It should be noted that, in addition to current outlays, these transactions have included capital expenditures such as acquisitions of property and construction of facilities. From 1996, construction is classified to commercial services and known land acquisitions to the capital and financial account.

For central government, the data cover expenditures by the Canadian government and by foreign governments for official representation, military expenditures and other governmental services. Joint operations of the armed services are included here, but contributions to the operation of international organizations and programs are shown as current transfers below.

Counterpart receipts to the administrative expenses arising from Canada’s official contributions are recorded here.

Investment income

Investment income is broken down into three categories: direct investment, portfolio investment and other investment.

Receipts

Direct investment covers interest income earned by Canadian direct investors on loans to their direct investment enterprises abroad together with their profits on direct investment. Direct investment enterprises consist of the foreign subsidiaries, associates (i.e., equity of more than 10%) and unincorporated branches of enterprises based in Canada, referred to as Canadian direct investors. A breakout is made of the profits earned as dividends by Canadian direct investors and the part that is re-invested in their foreign operations (re-invested earnings).

Portfolio investment covers interest earned by Canadian portfolio investors on their holdings of foreign bonds and money market instruments as well as dividends received on their foreign stock holdings.

Other investment consists of income earned on non-bank deposits, international reserve assets, Government of Canada loans, foreign money market instruments and other claims abroad.

Payments

Direct investment covers interest income earned by foreign direct investors on loans to their direct investment enterprises in Canada, along with the profits on their direct investment enterprises in Canada. Direct investment enterprises consist of Canadian subsidiaries, affiliates (i.e., equity of more than 10%) and Canadian unincorporated branches held by foreign-based enterprises, referred to as foreign direct investors. Profits are further broken down between the part that is paid out as dividends to foreign direct investors and the part that is re-invested in Canada.

Portfolio investment covers interest accrued to portfolio investors on their holdings of Canadian bonds and money market securities, as well as dividends on their holdings of Canadian stocks.

Other investment covers interest paid on foreign deposits in Canada, loans from non-residents and other non-resident claims on Canada. Interest on Canada's allocation of special drawing rights (SDR) included here.

Current transfers

This item includes international receipts and payments arising out of unilateral current transfers, i.e., transactions having no *quid pro quo* .

For presentation, the current transfers data are grouped according to whether the transactions are private or official in nature.

Receipts

Private

Personal and institutional remittances consist of pensions paid by foreign governments to Canadian residents and other transfers by non-residents to Canadian residents.

Official

Canadian withholding taxes consist of taxes withheld by the Government of Canada on selected income and service payments to non-residents.

Payments

Private

Personal and institutional remittances cover pension payments made by the Canadian government to non-residents (notably Canada pension, child tax benefits, old age security and veterans' pensions); personal remittances abroad by Canadian residents; and remittances by religious, charitable and academic institutions. Federal government superannuation is recorded in the capital account.

Official

Official contributions refer to technical and economic assistance and food aid provided abroad by the Canadian International Development Agency; data also include certain assistance by other Canadian governmental organizations and through non-governmental organizations. Administrative overheads for official assistance are included along with disbursements by the federal government and its enterprises to international agencies and programs, both civilian and military. In addition, debt forgiveness by the federal government and its enterprises are classified as capital transfers to the capital account.

Foreign withholding taxes refer to taxes withheld by foreign governments on selected income and service receipts from abroad.

Capital and financial account

The capital and financial account is made up of two basic components: the capital account and the financial account.

Capital account

The capital account includes capital transfers and intangible assets. Capital transfers include migrants' assets (funds in possession, purchases of houses in Canada and remaining wealth); federal government superannuation; debt forgiveness by the Government of Canada and its enterprises; and inheritances. The acquisition or disposal of intangible assets covers mostly intangibles, such as patents, leases, goodwill, etc.

Financial account

The financial account consists of transactions in financial assets and transactions in financial liabilities. The asset and liability components of the financial account are classified on the basis of functional type: direct investment; portfolio investment; and other investment.

Direct investment

Direct investment represents investment that allows investors, on a continuing basis, to have a significant voice in the management of an enterprise outside their own economy. For operational purposes, a direct investor usually has an ownership of at least 10% of the voting equity in an enterprise. An enterprise includes subsidiaries (more than 50% owned by a direct investor), associates (owned from 10% to 50% by a direct investor), and branches (wholly or jointly owned unincorporated businesses). Direct investment flows are measured from transactions involving equity, debt (including long and short term) and re-invested earnings.

Portfolio investment

Portfolio investment refers to international transactions in **bonds, stocks** and **money market instruments** between residents of Canada and non-residents. Foreign money market instruments are included in portfolio investment from the first quarter 2002; prior to 2002, those transactions were in other assets because their measurement, through two different sources, was not as precise.

Bonds normally have original terms to maturity[6] of more than one year although there can be exceptions for example, the US$ Medium Term Note Program of the Government of Canada introduced in 1996, with notes having terms to maturity of more than nine months, are considered bonds. Canadian money market paper are debt instruments with original maturities of one year or less. Portfolio securities embody the notion of marketability. In other words, they can be traded (bought and sold) in organized or other financial markets. For example, guaranteed investment certificates are not marketable and are classified under other investments.

Not all transactions in marketable securities are classified as portfolio investments. Transactions between affiliated parties in their own securities are classified as direct investments, as described above. Other exclusions include foreign securities held as part of Canada's official international reserves, foreign securities held by Canadian banks for their own accounts that are classified as other assets and repurchase agreements involving a security as collateral that are classified as loans.

The portfolio series in bonds, stocks and money market paper are broken down as follows: new issues, retirements, and trade-in-outstanding securities. For money market paper and Canadian bonds, the change in interest payable is measured as well. Retirements include repurchases for sinking fund or call purposes. All instruments, including those of the money market, can be classified on the basis of a sale to non-residents or a purchase from non-residents and on the basis of major geographical area.

Other investment

Loans

Loan assets consist of the following: those by the Government of Canada and its enterprises that include direct loans to foreign countries but exclude subscriptions to international agencies that are in other assets; loans by Canadian banks, including both Canadian dollar and foreign currency loans; loans by corporations, including mortgage loans; and loans by the corporate and personal sectors through repurchase agreements (repos) involving securities as collateral.

Loan liabilities include the following: corporate and government enterprises' borrowing from foreign banks, including syndicated bank facilities; mortgage loans; other loans; and loans by the corporate and personal sectors through repurchase agreements (repos) involving securities as collateral.

6. Existing bonds, with terms remaining to maturity of under one year, are still classified as bonds and not as short-term instruments.

Deposits

Deposit assets consist of deposits abroad of Canadian banks and deposit assets of non-bank Canadian depositors. **Deposit liabilities** are primarily those lodged by non-residents with Canadian banks. There are also some small foreign deposits at the Bank of Canada.

Official international reserves

Canada's reserve assets cover official holdings of foreign exchange and other reserve assets of the Exchange Fund Account,[7] the Minister of Finance, the Receiver General for Canada and the Bank of Canada. Some of the activities affecting Canada's reserve assets include official external financing and the foreign exchange market operations by the Bank of Canada, as agent for the Exchange Fund Account, which comes under the authority of the Minister of Finance.

Other

Other assets include many elements, but are concentrated in the following short list: Canadian banks' security transactions (both long- and short-term), corporations' trade credits and other short-term receivables, progress payments, deferred immigrants' fund assets and Government of Canada subscriptions to international agencies. Subscriptions are made, in part, through the issuance of non-interest bearing, non-negotiable demand notes, which are recorded in other liabilities. Subscriptions to the IMF are excluded here and are classified in official international reserves.

Other liabilities include many elements coming from a variety of sources. The main series include Government of Canada demand note liabilities; corporations' trade credits and other short-term payables, including interest payable on loans; and progress payments.

Statistical discrepancy

The **statistical discrepancy** represents the net transactions with non-residents that were not captured or were inadequately measured in the BOP. It is derived from the difference between recorded transactions in the current account and the capital and financial account (i.e., calculated as the arithmetic sum of the current account balance and the net capital and financial flows, with the sign reversed).

7. An account in the name of the Minister of Finance and administered by the Bank of Canada.