METHODOLOGICAL STANDARDS

INTRODUCTION

International accounts represent conceptually a synthesis of the economic relations between residents and non-residents. These are a succession of independent accounts, each of them representing the summary of a number of processes, economic situations and phenomena, which take place in the relations with non-residents over a certain period of time / at a specific point in time. The link between them is achieved through certain accounts / transitional items that ensure the reconciliation of data presented in a consecutive series of syntheses with different structure and level of aggregation. The following international macroeconomic accounts may be mentioned:

- **Balance of payments (BOP)** represents a macroeconomic statement that summarizes the economic transactions of a country with the rest of the world during a *specific time period* (year, quarter, month);
- **International investment position (IIP)** represents the value of financial assets of residents of an economy (which are claims on non-residents or are gold bullion held as reserve assets) and the liabilities of residents of an economy to non-residents at a *point in time* (end of quarter or end of year). The difference between the international financial assets and liabilities of a country (net position) may be positive (credit) or negative (debit);
- **Other changes in financial assets and liabilities account** show the flows that generate changes in stocks, presented in the IIP, additionally to the actual transactions between residents and non-residents reflected in the financial account of the BOP (e.g. revaluations of assets or liabilities due to price changes, exchange rate fluctuations of original currencies against the currency used as reference unit of account, other changes in volume – reclassifications, cancellations) and *allow establishing the link between the positions reflected in the IIP and the actual flows from the financial account of the BOP*;
- **Gross external debt (ED)** is an macroeconomic statement that shows at a point in time the position of those components of external liabilities that are debt instruments (loans, debt securities, SDR allocations, non-residents' currency and deposits, trade credits and advances from non-residents, other debt liabilities).

The most important relations within the international accounts statistics are as follows:

1. transactions are registered in the current account, capital account and financial account are balanced on double entry principle basis;
2. the sum of balances of the current account and capital account shall be equal to the financial account balance, which is called *net lending (+) / net borrowing (-)*. The difference represents errors and omissions resulting in practice from the peculiarities of data sources and time lags;
3. financial assets and liabilities positions reflected in the IIP, whose flows are shown in the financial account of the BOP, generate primary investment income reflected in the current account of the BOP;

4. the IIP structure derives from the structure of the BOP's financial account in standard presentation;
5. in the IIP, positions at the end of the period are equal to positions at the beginning of the period plus the flows from the financial account of the BOP and the changes reflected in the other changes in financial assets and liabilities account, made during the period;
6. the ED composition follows the IIP items and represents the stock of liabilities on financial debt instruments at a certain date / end of the period, disaggregated by maturity and institutional sector.

International accounts provide a complete picture of the economic transactions between residents and non-residents and serve as a basis for the analysis and assessment of the country's relations with the rest of the world, of its international economic activity and external economic policy. The consistency of data between the international accounts and national accounts allows their comparison and a comprehensive analysis of a country's internal and external economic activity.

The international accounts of the Republic of Moldova are compiled in accordance with Article 5 of the Law on the National Bank of Moldova no.548-XII of 07/21/1995.

These are elaborated quarterly and annually in million US dollars. The information from these statistics does not cover the regions located on the left bank of the Dniester River and the city of Bender.

The international accounts are regularly revised, the items are updated / amended with the mandatory indication of the revisions made, causes and reasons thereof, according to the following policy:

- quarterly data are updated in each subsequent quarter and the revisions may include up to three quarters of the current year;
- annual data are updated at the time of compilation of the final version and the revisions may cover up to four preceding years of the year for which the final version is compiled.

Data confidentiality. In accordance with the Law on Official Statistics no. 93 of 05/26/2017, the National Bank of Moldova (NBM) shall ensure the security and confidentiality of data collected on international economic transactions. Data are used solely for statistical purposes, being presented only in the form of aggregated indicators and analyses.

Data dissemination. International accounts statistics is disseminated in accordance with the Special Data Dissemination Standard of the International Monetry Fund (IMF), a commitment assumed by the Republic of Moldova in May 2006, in terms stipulated in the Advance Release Calendar (ARC) and in accordance with the data dissemination calendar published on the official website of the NBM.

1. METHODOLOGICAL STANDARDS ON THE INTERNATIONAL ACCOUNTS OF THE REPUBLIC OF MOLDOVA

The International Accounts Statistics Division within the Reporting and Statistics Department of the National Bank of Moldova produces BOP, IIP, and ED statistics compiled in accordance with the new international methodological standards, recommended by the International Monetary Fund in the *Balance of Payments and International Investment Position Manual,* Sixth Edition (2009) (BPM6), BPM6 – Compilation Guide (2014) and *External Debt Statistics: Guide for Compilers and Users* (2013) (EDS, 2013).

Additionally, supplementary items are calculated:

- *personal remittances (quarterly)* compiled according to the recommendations specified in *„International Transactions in Remittances – Guide for compilers and users"* (2009);
- *direct investment, according to the directional principle (quarterly)* within the Analytical Notes on the evolution of International Accounts and the related quarterly statistical bulletin;
- *direct investment according to the directional principle (quarterly)* in the Coordinated Direct Investment Survey (detailed by countries, industries, and in mixed breakdown by regions and by industries) following the recommendations of the *„Coordinated direct investment survey guide"* (2015);
- *international reserves (monthly)* according to the *„International Reserves and Foreign Currency Liquidity Guidelines for a Data Template"* (2013).
- Detailed Quarterly External Debt Statistics – according to the requirements of the World Bank (Quarterly External Debt Statistics (QEDS)), to be presented in the common with IMF database.

1.1. DEFINITIONS AND GENERAL PRINCIPLES

International accounts show the situation and transactions between residents and non-residents, regardless of their geographical location.

An economic unit is considered **resident** of an economic territory when it has its center of predominant economic interest on this territory.

Households are considered residents of an economic territory when the members of these households have their principal dwelling on this territory for a definite or indefinite, but fairly long (one year or more) period of time, or have the intention to stay for a long period of time, except for students, patients, diplomats, military personnel, seasonal workers, who are considered residents of an economic territory where they have their permanent place of residence, regardless of the duration of their stay abroad. An *enterprise* is considered resident of an economic territory when it is engaged in economic activities and transactions on a significant scale, holding production facilities or other locations on this territory. Organizations of the *general government* and *non-profit institutions serving households* are residents of the economic territory where they were founded and registered.

The **economic territory** of a country consists of its geographic territory administrated by the government, where persons, goods and capital circulate freely and are subordinated to the same fiscal and monetary authorities. It also consists of airspace, territorial waters, territories from international waters over which the country has exclusive rights, territorial enclaves situated on the territory of other countries, such as embassies, consulates, military bases etc. Respectively, such territorial enclaves that belong to other countries are not included in the country's economic territory.

Transactions are **valued** *at market prices*, defined as the amount of money that a potential buyer is ready to pay to acquire something from a potential seller, when both are independent parties and pursue commercial interests only.

The time of recording of transactions is the real or estimated time when an economic value is created, transformed, exchanged, transferred or extinguished / cancelled. In practice, this moment is not always known, so the time when parties record a transaction in their accounts may be taken as an approximation. Most transactions in the balance of payments are recorded in accordance with the *accrual basis.*

The time of recording depends on the type of transactions. Considering the peculiarities of the statistical system of data collection and compilation, the NBM records:

- transactions in goods – at the moment when ownership over goods changes;
- transactions in services – when services are rendered or payments are made;
- compensation of employees, social benefits, personal transfers – when the payment of respective amounts is made;
- interest on loans and on special drawing rights allocations – at the moment when payments should have been made in conformity with the agreements, according to the *due-for-payment basis*, on deposits – when payment is made, on debt securities – according to the *accrual basis*;
- grants and technical assistance – on the actual date of transaction;
- reinvested earnings – in the period when retained earnings accrue;
- dividends – on the date they are declared (in case of banks) and on the date when the payment of respective amounts is made (in case of other sectors);
- transactions in equity – at the moment when a transaction is recorded in the books in the case of newly issued securities at licensed banks, on the date of transaction in the case of other sectors;
- trade credits – at the moment when the ownership of a non-financial asset is changed;
- debt securities – at the moment when the ownership over them is changed, which determines the date of transaction;
- drawings on loans – on the actual date of transaction;
- loan repayments – at the moment when they are paid, rescheduled or forgiven by the creditor.

Flows are actual economic transactions and the result of some events that took place in a specific period of time. International flows are recorded as transactions (in the balance of payments) and as other changes in financial assets and liabilities. Financial assets and liabilities positions and flows are classified under functional categories and instruments. Flows may be:

- flows arising from economic transactions;

- other flows.

Economic transaction – an interaction between two institutional units that occurs by mutual agreement and involves an exchange of a value or a transfer.

Transactions recorded in the international accounts are carried out between two institutional units, one of them being a resident of the reporting country and the other – a non-resident.

Each transaction is recorded both on credit or debit of the current account and/or as increase / reduction in financial assets / liabilities. The concept of transaction does not necessarily imply a real flow and a financial one, it may be represented both by non-monetary or unilateral offsetting flows and by purely financial offsetting flows, reflected in assets and liabilities.

Transactions from international accounts are classified according to various criteria. In terms of reciprocity, transactions are bilateral (*exchanges*) and unilateral (*transfers*), in terms of the nature of the traded value there are monetary and non-monetary flows, in terms of the calculation method there are flows reflected at the actually traded value (loan drawings / repayment) or at the value calculated for the given period (loan interest, dividends), there can be transactions calculated directly (transport services) or indirectly measured (FISIM – Financial intermediation services indirectly measured); in terms of recording, there can be imputed transactions, re-routed (reinvestment of earnings), and direct / actual transactions.

Exchanges are transactions involving the provision of an economic value in return for a corresponding item of economic value. Economic values, in broad terms, may be divided into real resources (goods, services and income) and financial instruments and financial derivatives. Transactions with financial instruments may involve not only a change in ownership over existing claims and liabilities, but also relate to their creation / occurrence or extinction / cancellation. Exchanges are the most numerous and important transactions reported in the BOP. Purchases of goods and services, compensation of employees, payment of dividends, loan contraction etc. are all exchanges.

Transfers are transactions when a partner provides an economic value to another partner without receiving another value in return. Given that transactions are recorded in the BOP under the double-entry bookkeeping, transfers are used to provide a corresponding entry to the economic value of the transaction's object. For example, goods received in the form of humanitarian aid are reflected under *goods* (the market value of goods) and under *international cooperation* (corresponding entry to the value of the respective goods – transfers). Examples of transfers are taxes and duties, subsidies, debt forgiveness, inheritances.

Monetary transactions are the transactions in which one institutional unit makes a payment (receives a payment) or incurs a liability (acquires an asset) stated in units of currency.

Non-monetary transactions are those in which the transaction's object is not stated in units of currency, for example: barter, remuneration in kind, payments in kind, humanitarian aid in the form of goods and services etc. Non-monetary transactions are recorded based on the market value of the transaction's object.

There are three types of *transactions rearrangements* employed in the international accounts:

1. Rerouting of transactions (for example, from one institutional sector to another, contributions to insurance or pension funds are made by some units, but are attributed to households);

2. Partitioning of transactions (for example, interest payable / receivable by financial intermediation is partitioned into the return on investment and financial intermediation services for which the intermediaries do not explicitly charge);
3. Imputations (for example, reflecting the transactions calculated indirectly, such as the reinvested earnings of a direct investment enterprise, investment income earned on insurance technical reserves, retained earnings of investment funds).

Other flows are genuine economic phenomena that capture changes in the assets and liabilities of an economy between opening and closing positions that are not due to transactions recorded in the BOP.

In the context of international accounts, other flows are recorded only for financial assets and liabilities and are registered in the IIP. Other flows are classified into two major categories:

- Other changes in the volume of assets and liabilities;
- Revaluation of assets or liabilities, which arise from changes in their price or the exchange rate fluctuations during the reference period.

Other changes in the volume of assets / liabilities include unilateral debt *cancellation* by the creditor*, changes in the classification of assets / liabilities, monetization and demonetization of gold bullion* and other economic events.

Debt write-off occurs when the creditor recognizes unilaterally the impossibility to recover debts. *Debt forgiveness* arises from an agreement between the parties, motivated by the intention to convey a benefit. *Debt forgiveness* is distinguished from *debt write-off* and is recorded as a transaction in the capital account (capital transfer) of the balance of payments.

Positions represent the value of financial assets and liabilities at a certain date. They are recorded in the international investment position. Data on positions are presented as of the beginning and end of a reference period (quarter, semester, 9 months, year) or in dynamics for a specific time period. Changes in positions from the beginning to the end of the period are caused by the flows recorded in the certain period (BOP transactions and other changes).

An institutional unit is an economic entity corresponding to the following criteria:

1. it is engaged in economic activity, is entitled to own goods and services, and is able to exchange the ownership of goods or assets in transactions with other institutional units;
2. it is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
3. it is able to incur liabilities to other institutional units and to enter into contracts;
4. it holds a complete set of accounts (including accounting documents and a balance sheet of its assets and liabilities).

Institutional units are recognized in the cases of branches and notional resident units, if the above-mentioned criteria are satisfied.

There are two main types of institutional units:

1. Households – persons or groups of persons;
2. Corporations (corporations or quasi-corporations, non-profit institutions and government units – legal or social entities), whose activity is recognized by the state and which operate under the legislation in force. Quasi-corporations are

unincorporated businesses that operate as if they were an entity separate from their owners.

Institutional units are grouped into institutional sectors. Transactions are assigned to the institutional sector of which the participating resident unit is part. Thus, international accounts flows (secondary income, capital transfers, portfolio investment, financial derivatives, other investment) are recorded depending on the economic sector to which the resident unit involved in the transaction belongs.

Institutional sectors are classified as follows:

1. ***Central bank*** *(monetary authorities)* – the National Bank of Moldova;
2. ***Deposit-taking corporations, except the central bank*** – licensed banks;
3. ***General government*** – government institutions, local government authorities;
4. ***Other sectors:***
   - ***Other financial corporations***
     1. money market funds;
     2. investment funds;
     3. other financial intermediaries;
     4. financial auxiliaries (foreign exchange offices and money transfers operators);
     5. insurance corporations;
     6. pension funds.
   - ***Non-financial corporations, households and non-profit institutions serving households***
     - *non-financial corporations* – industrial and commercial corporations, including public corporations;
     - *households – individuals, who are often (but not necessarily) living in families;*
     - *non-profit institutions serving households – charities, professional societies, religious institutions, cultural clubs, political parties.*

1.2. METHODOLOGICAL STANDARDS ON THE BALANCE OF PAYMENTS OF THE REPUBLIC OF MOLDOVA

1.2.1. Balance of payments structure

Balance of payments consists of the following accounts: current account, capital account and financial account. The current account includes: goods balance, services balance, primary income and secondary income balances. The capital account records the gross acquisitions / disposals of non-produced, non-financial assets and capital transfers. The financial account includes direct investment, portfolio investment, financial derivatives, other investment, and reserve assets.

According to the standard presentation of the BOP, aggregated indicators in the current and capital accounts are presented on a gross basis as the sum of all transactions recorded in the respective item, both on debit and credit side. The indicators of the financial account are recorded on a net basis, reflecting the difference between debit and credit entries for each functional category and instrument of assets and liabilities, separately for *net acquisition of financial assets and net incurrence of liabilities* (*net acquisition of financial assets* represents the increase in assets minus the reduction in assets, while *net incurrence of liabilities* is equal to the incurrence of liabilities minus the reduction in liabilities). Besides the standard presentation, the NBM also produces the BOP in detailed presentation, which includes not just current and capital account items, but also financial account items on a gross basis.

The *balance of payment* items are structured as follows:

The current account shows all the transactions between residents and non-residents relating to the international trade in *goods* and *services* and the receipts and payments of *primary income* and *secondary income*.

The **Goods** account covers transactions in goods, whose economic ownership is changed between residents and non-residents, whether or not the goods have crossed the country's border (goods that do not cross the border are the goods procured in ports by international carriers and goods under merchanting). This also includes transactions in e-commerce goods and e-wallets. It should be mentioned that some goods are included in services, for example, the consumption of embassies on the territory of other states is attributed to government goods and services.

- *General merchandise on a balance of payments* basis covers goods for which a change in ownership occurs between a resident and a non-resident and which are not included in other specific categories, such as goods under merchanting and non-monetary gold, or as part of a service. General merchandise is evaluated at market value on a free on board (FOB) basis.
- *Net exports of goods under merchanting* include the purchase of goods by a resident from a non-resident combined with the subsequent resale of the same goods to another non-resident, without the goods crossing the border of the reporting economy. Net exports of goods under merchanting represent the difference between the sales and purchases of goods under merchanting.
- *Nonmonetary gold* covers all transactions with gold, except for monetary gold. Monetary gold is owned by monetary authorities and recorded as a *reserve asset*.

Goods for and after processing and goods sent for repair are not included in general merchandise in the balance of payments, because there is no change in ownership and the value of processing and repair services are included in the corresponding items within services.

Services account covers services rendered between residents and non-residents.

Services are classified as follows:

- *Manufacturing services on physical inputs owned by others* – cover processing, assembly, labelling, packaging of goods by an entity that does not own the goods concerned. The manufacturing is undertaken by an entity that receives a fee from the owner and because the ownership of the goods does not change, no merchandise transaction is recorded. The value of fees for manufacturing services on physical inputs owned by others is not necessarily equal to the difference between the value of goods sent for processing and the value of goods received after processing.
- *Maintenance and repair services* – cover the maintenance and repair works by residents on goods that are owned by non-residents (and vice versa). Repair and maintenance of ships, aircraft, and other transport equipment is included in this item. Cleaning of transport equipment is excluded because it is included in *Transport*, the maintenance and repair of buildings are included under *Construction*, while the maintenance and repair of computers are included under *Computer services*.
- *Transport* is the process of international carriage of people and objects in a country other than that of residence or provenance, with the obligatory crossing of the state border, as well as related auxiliary services. Transport services are classified (i) by mode of transportation: sea, air, and other modes, and further by (ii) passengers, freight and other auxiliary transportation services, such as loading / unloading of containers, storage and warehousing, packing and repackaging, cleaning of transport equipment performed in ports and airports etc. Postal and courier services are shown separately in the category of transport services and cover the pick-up, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages.
- *Travel* includes the goods and services acquired from an economy by non-resident travellers for business and personal purposes (including trips related to health and education). Travel credits cover goods and services acquired by non-residents during their visits in the Republic of Moldova. Travel debits cover goods and services acquired from other economies by residents during their visits abroad. Travel includes local transport services on the territory of the country concerned, while international transport services are reflected in the *passenger transport*. The goods purchased by a traveller for resale in the traveller's own economy or in any other economy are also excluded. Travel is divided into:
    - *Business travel* – covers goods and services acquired for personal use by persons whose primary purpose of travel is business (including by seasonal, border and other workers who are not resident in the economy in which they are employed). *Business travel* is further split into *goods and services acquired* by border, seasonal or other short-term workers and *other business travel*;
    - *Personal travel* – covers goods and services acquired by persons going abroad for purposes other than business (such as vacations, participation in recreational and

cultural activities, visits with friends and relatives, pilgrimage, and education- and health-related purposes). *Personal travel* includes: *healthcare expenses, education expenses etc.* Distance education and health services are classified as *personal, cultural and recreational services*.

- *Telecommunications, computer, and information services* – include international telecommunication services (sounds and images transmitted by telephone, radio, Internet; service of informational channels; auxiliary services), *computer services* (hardware and/or software-related services, data-processing, consultancy, installation, maintenance and repair of computers, assistance for computer resources management, the analysis, design and programming of "turnkey" information systems (including website development and design) and the provision of technical consultancy for computer applications (software); licenses to time-limited (periodic) use of non-customized software on magnetic media, excluding the possibility of their distribution or reproduction; non-customized software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment; development, production, provision and elaboration of documentation for customized software, including operating systems developed at the request of particular users; maintenance of systems and other auxiliary services, such as training provided as part of consultancy activities; hardware and software consultancy implementation services, including the management of subcontracted computer services, as well as personalized training services provided to a person or a group of persons, such as the training of employees of a company; data-processing services, such as data entry, sorting and processing; webpage hosting services and computer facilities management); *information services* (news agency services, databases services (data collection, storage, and dissemination), web search portals, as well as the non-bulk subscriptions to newspapers and periodicals, whether by mail or electronic transmission, library and archive services);
- *Financial services* – cover fees for financial intermediation services and auxiliary services between residents and non-residents. These are divided into:
  - *Explicitly charged and other financial services* – consist of various commissions for deposit-taking and lending, for one-off guarantees, early or late repayment fees or penalties, account charges, fees related to letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Deposits of financial means for carrying out the actual transaction or on behalf of financial instruments are not included here.
  - *Financial intermediation services indirectly measured (FISIM)* – express the estimated value of services provided by financial intermediaries for which no explicit fees or commissions are charged, but which are comprised in the difference between actual interest rate and interbank interest rate.
- *Construction* – includes the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements and other engineering constructions (including roads, bridges, dams etc.). It includes installation and assembly work, modernization, landscaping, specialized services. The construction contracts covered in international trade in services are of a short-term nature. A large-scale construction project that takes

a year or more will give rise to a resident branch, whose activity is reflected under direct investment. Construction is divided into:

1. *Construction abroad* – consists of construction works for non-residents by enterprises resident in the compiling economy (credit / exports) and the goods and services acquired from the economy in which the construction activity is being undertaken by these enterprises (debit / imports);
2. *Construction in the compiling economy* – consists of construction work for residents of the compiling economy by non-resident construction enterprises (debit) and the goods and services acquired in the compiling economy by these non-resident construction enterprises (credit).

- *Insurance and pension funds services* include direct insurance, such as life and health insurances, freight insurance and other insurances; reinsurance; auxiliary insurance services, as well as pension and standardised guarantee services;
- *Architectural, engineering, scientific and other technical services* include payments for:
    - *Engineering services*, which includes the design, development and use of machinery, equipment, processes and systems, as well as researches in engineering projects. This does not include installation / assembly and configuration of machinery and equipment services, at the level of the economic unit, insignificant in the monetary equivalent, they are included in *other business services*;
    - *Scientific and other technical services*, include surveying, cartography, product testing and certification, meteorological services, technical inspection services, certification of ships, aircraft, automobiles, certification and authentication of works of art; testing and analysis of the physical properties of materials; testing and analysis of chemical and biological properties of air, water, soil, food, pharmaceuticals, etc.; testing and analysis in related scietific fields;
    - *Architectural services,* which includes urban and regional planning, landscape architectural services, including land use planning, site selection, control and use, feasibility studies, environmental impact assessment and economic assessments of urban development plans.
- *Charges for the use of intellectual property* include charges for the temporary use of intellectual proprietary rights (franchises and trademarks; licenses for the use of the research and development results; software reproduction and / or distribution licenses; licenses for the reproduction and / or distribution of audiovisual and related products). This does not include the definitive and irrevocable exchange of intellectual property rights (their alienation / sale), such transactions are classified as the *gross acquisition / disposal of non-produced, non-financial assets* of Capital account.
- *Government goods and services*
    1. *Embassies and consulates* include maintenance costs incurred in the country where they are located; charges for visas, completing documents and other services provided; the expenditure of diplomats, consular staff and members of their households in the country in which they are located;
    2. *Military bases and units* include maintenance costs incurred in the country of location, and also military personnel expenditure;

3. *Other goods and services of general government (n.i.e)* include current expenditure incurred by other international organizations and governmental institutions.

   Also here are classified the state registration services of maritime vessels from abroad, as well as the issuance of state registration certificates of medicines by public institutions / agencies subordinated to the Government; payments to the public administration for permits, passports, entrepreneurial patents and other types of licenses than those mentioned in the *charges for the use of intellectual property*.

- *Other services* – personal, cultural and recreational services; other business services (research and development, professional and management consulting services, trade-related services and other).

Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units and is divided into:

- *Compensation of employees* – represents the total gross value of remunerations in cash or in kind, including charges, taxes and contributions to social security and health schemes etc. when the employer and the employee are resident in different economies. Living expenditures made by employees in the host country are not excluded from the gross value, these are compensatory recorded under *travel*. Taxes paid in the host country are also compensatory recorded under *secondary income*.
- *Investment income* – represents returns and expenditures associated with the provision of financial assets and incurrence of liabilities. This category covers direct investment income, portfolio investment income, income on other investment and on reserve assets. Credit entries include income receivable from capital invested or lent abroad by residents and debit entries include the income of non-residents from capital invested in the Republic of Moldova or lent to residents. Income associated with equity ownership (dividends and withdrawals from income of quasi-corporations, reinvested earnings) and income from debt instruments (interest) are the most common types of investment income:
  1. *Dividends* and other withdrawals from income of quasi-corporations are allocated to the owners of shares and other forms of participation in the equity capital of companies in direct and portfolio investment.
  2. *Reinvested earnings* represent foreign direct investors' earnings, which were not distributed to them in the form of dividends or other benefits.
  3. *Interest* represents payments in accordance with a binding agreement between the creditor and debtor (for example: interest on loans, bank deposits; coupons on securities etc.).
- *Other primary income* is classified by institutional sector of the compiling economy (*General government* and *Other sectors*) and includes the following components:
  1. Taxes on production and imports;
  2. Subsidies;
  3. Rent.

Taxes on production, products, and import are included in other primary income. Taxes on products and import include value added taxes on the shipment / import of taxable goods or services, customs duties and excise fees (taxes on some consumption goods). Taxes on products are comprised in the price of goods or services and are levied at various stages (production, distribution, and use). Currently these are only partially recorded in the balance of payments, depending on the availability of information.

Tax refunds represent negative recordings: tax refunds from the government budget to non-resident individuals are shown as negative credits (general government), tax refunds from abrod to resident individuals are shown as negative debits (other sectors). A similar approach is used for tax refunds within Secondary income.

Rent covers income received by the owner of natural resources for the transfer of the right to use them to other non-resident institutional units. Government payments / receipts of rent on land without buildings, such as military bases, are classified as *Rent* and not as *Government goods and services*. Payments for overflight rights are also rent, and payments for air traffic management (control) will be reflected in Other transportation services. This also includes the temporary transfer or loan agreements of football players, while the final transfer contract are classified in the Capital account as *gross acquisition / disposal of non-produced non-financial assets*.

Secondary income includes compensatory entries related to the transfer of ownership over material and financial resources from the residents of a country to residents of another country, without receiving any economic value in return. All transactions reflected in secondary income are *transfers*.

Secondary income is divided by sector: *general government and financial corporations, non-financial corporations, households and non-profit institutions serving households.*

The most common examples of *secondary income* are personal transfers, social contributions and benefits, taxes, humanitarian aid and technical assistance within international cooperation, non-life insurance premiums and claims etc.

Current taxes consist of taxes levied on income, wealth, capital gains, financial transactions (such as taxes on issue, purchase, and sale of securities) and other taxes/fees that are not included in primary income.

Social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid.

Social benefits include benefits payable under social security and pension schemes. They include pensions and nonpension benefits regarding events or circumstances such as sickness, unemployment, disability etc., and other payments similar to social security benefits.

Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations:

- grants, humanitarian aid, including in kind - food, clothing, medicines, and so forth, given as emergency aid in exceptional situations, such as natural disasters;
- annual or other regular contributions paid by the government to international organizations and regular transfers made as matter of policy by international organizations to the government.

It should be noted that the payment for equity in case of holding by gneral government of the shares subscribed to various international structures is reflected in Financial account as portfolio investment, while contributions that give rise to equity of certain international organisations, economic or monetary unions, which is not in the form of securities is classified in Other investments. Contributions to the equity of international organizations that do not grant the payer the right to a share of the beneficiary's assets are classified as Capital transfers.

Miscellaneous current transfers, in cash or in kind, include all current transfers other than those described above. They comprise: net insurance premiums and claims (except life insurance); current transfers to NPISHs; current transfers between households; fines and penalties; non-major compensations for injury to persons or damage to property or goods, non-fulfillment of contracts, or other losses that are not covered by insurance policies; gifts and donations of a current nature; current transfers within lotteries and gambling to cover the amounts payable to the winners or to charities, that are estimated from the total cost of lottery tickets or bets after the value of services is deducted.

Capital account records the gross acquisitions / disposals of non-produced, non-financial assets and capital transfers.

Non-produced, non-financial assets consist of:

- natural resources, which include land, mineral rights, water, air space, emission rights and other permits if they are tradable etc. International transactions in land occur in the case of land acquisition / disposal or in the case of the signing of the long-term land lease for the establishment of territorial enclaves, diplomatic missions or military bases. Also, international transactions occur when there are voluntary changes of sovereignty over a particular area, whether for payment or as free transfer. Unilateral annexation of territories does not represent capital transfers;
- contracts, leases and licenses, that are recognized as economic assets. These includes tradable operating leases, time-share contracts, licenses for certain activities, the exclusive right of publishing house to publish the new works of certain author etc.
- marketing assets consist of logos and trademarks, brand names, domain names (extensions / hosting) and titles of periodicals, only when sold separately from the entity that owns them.

Acquisitions and disposals of non-produced, non-financial assets are recorded separately on a gross basis (*gross acquisition – debit / gross disposal – credit*). Only the acquisition /disposal of such assets (change of ownership), but not their use, is to be recorded under this item of the capital account.

Capital transfers consist of (1) transfers of ownership of fixed assets, (2) transfers of funds linked to, or conditional upon, the acquisition or disposal of fixed assets and (3) debt forgiveness by creditors. Capital transfers may be in cash or in kind and are classified by institutional sector of the compiling economy (*general government* or *other sectors*).

Examples of government capital transfers are investment grants from international donors, debt forgiveness by an external creditor etc. Capital transfers between households are large gifts (such as buildings, participations in the capital of enterprises) or valuable inheritance.

The sum of the ***current account balance*** and the ***capital account balance*** defines the indicator **"net lending (+) / net borrowing (-)"** of the country in its economic relations with the rest of the world.

The **financial account** records transactions in financial assets and liabilities that take place between residents and non-residents and reflect *net acquisitions of financial assets* and *net incurrence of liabilities* during a period of time.

The increase in both financial assets and financial liabilities is recorded with a plus sign, while the reduction – with a minus sign.

By functional category, transactions may be classified as follows: *direct investment, portfolio investment, financial derivatives (other than reserves), other investment, reserve assets*. Financial transactions are divided by types of instruments, institutional sectors, and maturities. There are three main categories of instruments: (1) equity and investment fund shares, (2) debt instruments, and (3) other financial assets and liabilities.

Direct investment is associated with a resident in one economy (direct investor) having control or a significant degree of influence on the management of an enterprise that is resident in another economy (direct investment enterprise). Following the international standards, the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relation. The concept of direct investment is similar to the one described in the OECD methodology in *Benchmark Definition of Foreign Direct Investment, 4th Edition, 2008*.

The following components are separately reflected within direct investment:

- *Equity and investment fund shares, other than reinvested earnings* concern all direct participations in the equity capital of economic entities in another economy, which are direct investment enterprises, as well as indirect participations, owned by branches, subsidiaries and their fellow enterprises, when there is a direct investment relationship.
- *Reinvestment of earnings* represents the direct investors' proportion, in terms of equity held, of the earnings not distributed as dividends (the corresponding entry is recorded in the current account under the primary income account as direct investment income – reinvested earnings). Reinvestment of earnings are conventional investment inflows into the direct investment enterprises' equity from the direct investors, which may also be negative if the direct investment enterprise incurs losses or if dividends distributed for payment in the reporting period are higher than the net earnings for this period. Negative reinvestment of earnings is considered as conventional withdrawal of equity from the economy.
- *Debt instruments* represent all debt positions of the direct investor with affiliated enterprises (in a direct foreign investment relationship), especially loans between non-resident/resident parent enterprise and resident /non-resident branch and vice versa. This item also includes other types of debt between affiliated enterprises, for example, trade credit and advances, other accounts receivable / payable, such as historic debt for the import of energy resources to its direct investor.

The transactions reflected as flows of equity do not necessarily represent financial flows, they can be in the form of goods, services, other resources offered by the direct investor to the direct investment enterprise or vice versa. If no other conditions are stipulated, these flows lead to the increase in equity of the direct investor.

When assessing the amounts of reinvested earnings, more complicated situations can arise with regard to superdividends and liquidating dividends, which are treated as capital withdrawals and not as income payable to direct investors in the reporting period (they are not reflected as paid dividends in the current account, while in the financial account they are recorded as reductions in *equity and shares* in counterpart with *currency and deposits*). The definition of a dividend as a superdividend is complex and requires an analysis of the activity of the direct investment enterprise and its long-term economic performance.

The debts between certain types of affiliated financial institutions (*central bank, deposit-taking corporations, investment funds and other financial intermediaries,* except insurance corporations and pension funds) are not reflected in direct investment as debt instruments. These are recorded under *other investment*, depending on the type of financial instrument (loans, trade credits, other accounts receivable / payable) or under *portfolio investment.*

Equity and debt instruments are also classified based on the type of relation between affiliated enterprises and the direction of the investment flow; three types of relations can be distinguished:

1. Direct investor in the direct investment enterprise – this category covers investment flows from the direct investor to its direct investment enterprise;
2. Direct investment enterprise in its direct investor (reverse investment) – this category covers investment flows from direct investment enterprise to its direct investor;
3. Between fellow enterprises belonging to the same group – this category covers flows between enterprises that do not control or influence each other, but that are both under the control or influence of the same direct investor.

Portfolio investment includes transactions between residents and non-residents involving debt or equity securities (shares), other than those included in direct investment or reserve assets. The basic condition for recording transactions involving securities in portfolio investment is their negotiability on organized markets or directly, except for transactions in financial derivatives, which, although they are securities, are included in their separate functional category rather than in portfolio investment. Portfolio investments are in the form of:

- *Equity and investment fund shares* – in the case when the investor does not meet the requirements of associated direct investment and owns less than 10% of the enterprise's equity capital, as well in the case of investment funds, hedge funds;
- *Debt securities* – cover bonds and money market instruments.

Debt securities are presented by institutional sectors and by original maturity (short-term and long-term).

Financial derivatives (other than reserves) are securities that represent financial instruments linked to other financial instruments or indicators, or certain goods that may be purchased or sold at a future date, through which financial risks (interest rate risk, foreign exchange risk, equity and commodity price risks, credit risks etc.) can be traded in financial markets. This category is identified separately from other categories because it relates to risk transfer, rather than supply of funds or other resources. Unlike other functional categories, no primary income accrues on financial derivatives. It includes swaps operations, options, guarantee deposits etc. recorded on a net basis.

Other investment includes operations with financial assets and liabilities that are not included in the following categories: *direct investment, portfolio investment,* or *financial derivatives*. Other investment is classified by institutional sector and by maturity.

Other investment includes transactions with the following types of financial instruments:

- *other equity;*

- *currency and deposits;*
- *loans;*
- *trade credit and advances;*
- *other accounts receivable/payable;*
- *special drawing rights.*

Other equity is not in the form of securities, so it is not included in portfolio investment. Other equity is included in *Other investment*, when it is not direct investment or reserve assets. For instance, participation in some international organizations is not in the form of securities and so it is classified as *other equity*.

Currency and deposits. Currency covers cash in foreign currency held by residents (assets) and in national currency held by non-residents (liabilities). Deposits consist of demand and time deposits and other types of placements of residents abroad (assets), and of non-residents with the domestic banking system (liabilities). Deposits are standardized, non-negotiable contracts generally offered by deposit-taking institutions, allowing the placement and the later withdrawal of a variable amount of money by the creditor.

Loans include financial assets and liabilities that appear as a result of lending a sum of money directly to a debtor by a creditor, without a negotiable document or instrument being created. This item includes financial loans, loans to finance trade, other loans (including mortgage loan, overdraft facilities), credits and loans from the IMF. Financial leases and repurchase agreements (REPO) are also included under this item.

Repayments of loans are recorded at the moment of liabilities extinction (for example, at the moment of actual payment of the principal, rescheduling or loan forgiveness by the creditor, thus, interest arrears are included under this item as conventional drawings to ensure the reconciliation with positions reflected in the IIP, which includes interest arrears. According to BPM6, arrears are included in the original instrument with which they are associated, either asset or liability, and are reflected as a memorandum item when they are related to exceptional financing, in other cases they are reflected only in the supplementary information to the balance of payments.

Trade credit and advances are claims / liabilities arising from the direct extension of credit by the suppliers of goods and services to their customers, and advances for work that is in progress or is yet to be undertaken, in the form of prepayment by customers for goods and services not yet provided. Trade credits are recorded when the payments for goods and services were made earlier or later than the change in ownership over them, which is often specified in the transaction contract, and represent short-term and long-term assets and liabilities (except for the financial lease contracts, which are treated as loans). Providing trade credits does not lead to the creation of financial instruments. In the balance of payments of the Republic of Moldova, this item includes advance payments / receipts for goods and services, the value of goods supplied in advance to the country / abroad and of services provided / received without the related payments being collected, and the difference between the value of barter traded goods.

Other accounts receivable / payable – other show the financial assets and liabilities of other types than those listed above. This item comprises assets and liabilities reflected as offsetting entries to transactions where there is a timing difference between change of ownership and the corresponding payments. It includes liabilities / assets related to taxes, purchase and sale of securities, of various commissions (for example for debt securities, and gold debt) wages and salaries, dividends, and social contributions that have accrued but have not yet been paid, and their subsequent settling.

Special drawing rights. Special drawing rights (SDRs) issued by the International Monetary Fund are monetary units of account designed to balance liquidity on an international level. SDR issuances are allocated to member states in proportion to their quotas in the formation of the IMF resources. In the balance of payments these are reflected, on the one hand, as increases in official reserve assets (SDR holdings), on the other hand, as an increase in external liabilities (SDR allocations). If SDR allocations exceed SDR holdings (from the official reserve assets), the country pays an interest to the IMF, and if SDR holdings exceed SDR allocations, then the IMF pays an interest to the country. The Republic of Moldova is currently a net debtor to the IMF and pays interest on SDR allocations.

Reserve assets are the official external assets administered by monetary authorities, in the case of the Republic of Moldova by the National Bank of Moldova. Reserve assets are those external assets that are readily available and totally controlled by monetary authorities to meet balance of payments financing needs, to intervene in foreign exchange markets to manage the exchange rate, and for other related purposes (such as maintaining confidence in the national currency and the economy, or as a source for external loans servicing / lending). Reserve assets must meet the conditions of convertibility, being denominated in freely usable foreign currency (from the SDR basket) and having a high degree of liquidity.

Reserve assets include monetary gold – gold bullion, special drawing rights, reserve position in the IMF, assets in currency and deposits and securities. Currency and deposits in reserve assets composition are classified as claims on non-resident monetary authorities (national central banks, BIS and IMF) and claims on other entities (non-resident deposit-taking corporations). Securities are presented by initial maturity (short-term and long-term).

1.2.2. DATA RECORDING METHOD

The balance of payments is compiled on the basis of the *double-entry system*. Every recorded transaction is represented by two entries with equal values: one credit entry and one debit entry. Thus, the sum of all credit entries is equal to the sum of all debit entries, and the net balance (difference between the credit and debit entries) of all entries in the balance of payments should be zero.

The following transactions are recorded on credit: exports of goods and services, income and transfers receivable, reduction in financial assets and increase in financial liabilities. On debit, the following transactions will be recorded, respectively: imports of goods and services, income nd transfers payable, increase in assets and reduction in financial liabilities.

Most of the entries in the balance of payments are recorded as *positive*. Deviations from this rule are mainly related to the transaction's correction according to its overall logic, for example, in the case of goods under merchanting, the acquisition of goods by merchants is shown as a *negative* export rather than as an import. The same procedure is applied in the case of returns or refunds (such as taxes). Another example of recording *negative* values is the reinvestment of earnings from direct investment if there are losses.

Net financial account indicators are reflected both as *positive* (when increases prevail) and as *negative*, when decreases prevail. Thus, the net increase in both financial *assets* and *liabilities* is recorded as positive, while the net decrease – as negative. In the detailed presentation of the BOP, all financial account indicators on a gross basis are recorded as *positive*.

A. Transactions generating inflows of financial means are recorded as follows:

- On credit:
  - ✓ exports of goods and services, compensation of resident employees by non-residents and returns for providing means of production to non-residents or income on securities held by residents, issued by non-residents;
  - ✓ receipts from increases in liabilities and sale / decreases in financial assets in the form of direct investment and portfolio investment, sales of foreign securities to non-residents by residents and purchases of Moldovan securities by non-residents, drawings on loans received from non-residents, reimbursement of loans offered by residents, SDR allocations inflows, use of reserve assets.

B. Transactions generating outflows of financial means are recorded as follows:

- On debit:
  - ✓ imports of goods and services, compensation of non-resident employees by residents and income paid by residents for the use of means of production belonging to non-residents or on securities held by non-residents, issued by residents;
  - ✓ payments resulting from decreases in liabilities and acquisitions of financial assets in the form of direct investment and portfolio investment, redemption of Moldovan bonds from non-residents and purchase of foreign securities by residents, reimbursements of loans granted by non-residents, drawings on loans granted by residents to non-residents, payments on SDRs allocations, growth of reserve assets;

C. Secondary income and capital transfers

Unlike transactions described under letters A and B, which involve exchanges, reciprocity, *secondary income* and *capital transfers* include offsetting entries to goods and services received or offered without a quid pro quo, financial assistance and other one-sided transfer operations, such as external technical assistance, membership fees paid to international organizations or personal transfers made by individuals from abroad.

D. Errors and omissions

The double-entry system on which the recording of data in the balance of payments is based implies that the sum of all credit entries is identical to the sum of all debit entries. In practice, however, the accounts do not balance, because data for various items are derived from different sources; as a result, there is a summary net credit or net debit, which is residually recorded under a separate item labelled *errors and omissions*. Thus, if there is a net credit balance, an offsetting debit entry is made under this item and vice versa. Errors and omissions may appear due to the peculiarities of primary data sources, as a result of exchange rate fluctuation, time lag between the moment of transaction and the moment of recording, reporting period overlap, and for other reasons.

1.2.3. SOURCES OF INFORMATION

The main sources of information used for the BOP data collection are the National Bureau of Statistics of the Republic of Moldova (data on trade in goods, services, direct investment of other sectors), banking sector institutions (i.e. licensed banks, foreign exchange offices, NBM departments), governmental institutions (State Chancellery, Ministry of Finance; Ministry of Foreign Affairs and European Integration, Ministry of Education and Research; Bureau of Migration and Asylum, Agency for Land Relations and Cadastre, National Commission for Financial Markets (NCFM), Central Securities Depository); international organizations representatives in the Republic of Moldova, and economic agents.

Data collected from the above-mentioned sources are supplemented with data from the International Transaction Reporting System (ITRS). Under ITRS, two categories of economic agents provide data:

(1) licensed banks and the NBM that report international transactions made both for their own accounts and on behalf of their clients;

(2) other resident economic agents having accounts with banks abroad that report on the flow of funds in those accounts.

Along with the data collected via statistical reports, some **estimations** and **adjustments** are made in order to improve data quality and completeness:

Goods

- From the data on imports / exports of goods recorded by the Customs Service, processed by the NBS and then passed to the NBM, excluded are:
  - exports/imports of goods after/for processing, for which no change in ownership occurs,
  - the value of goods sold by duty-free stores that are mainly considered to be purchased by non-residents and is included in travel services.
- The value of imported goods is recalculated from CIF prices into FOB prices, excluding the cost of insurance and freight services, estimates for which are made in the range of 10% of the CIF value of imports from CIS countries (except for Ukraine) and 6% for imports from the rest of the world (except for Romania).
- The official data on imports / exports of goods by individuals, recorded by the Customs Service, are supplemented with estimates made by the NBM.
- The value of goods acquired in ports and airports by international air or motor carriers from vendors that are residents of another economy is calculated based on the ITRS data and reports of economic agents.

Services

Transport

- The imports of freight services are estimated on the basis of data derived from the recalculation of the value of imported goods from CIF prices into FOB prices (see Goods). Data obtained this way are divided by type of transportation (sea, air, and other).

- The exports of freight services are calculated based on ITRS data, additional estimates are made for auxiliary transport services.
- The value of natural gas transit services on the territory of the Republic of Moldova is recorded based on primary reports collected.
- Data on road, railway, air, and sea transportation of passengers are calculated based on the report from the NBS and on the information obtained from the ITRS.
- Part of passenger air transportation services rendered to non-residents is derived from data on technical assistance offered to the country (see *Secondary income*).

Travel

- Travel services are calculated based on several sources and are specified by two major categories: *business travel and personal travel.*
- Estimates for the following sub-items: acquisition of goods and services by border, seasonal, and other short-term workers, health-related and education-related expenses etc. are made based on data collected via the ITRS.
- Another important source for the estimation of travel services are data concerning the sale / purchase of foreign currency by exchange offices. Data obtained are then distributed by sub-items.
- Exports of goods by duty free stores are used to estimate the value of goods purchased by non-residents when leaving the country.
- Data on technical assistance offered to the country are used to derive the value of travel expenditures of non-resident experts.
- Based on the number of declarations submitted to the Customs Service concerning the imports / exports of goods by individuals, travel expenditures by individuals involved in shuttle trade are estimated. Living expenses are estimated considering the duration of stay and the geographic area (country).
- The value of compensation of Moldovan employees working abroad is used at estimating their living expenses in the respective countries.
- Travel services rendered to residents / non-residents studying or participating in training courses abroad / in the Republic of Moldova are estimated. These estimates are made on the basis of the number of individuals (students, pupils, interns, etc.), country, duration of stay, type and value of tuition, scholarships offered to residents abroad and, respectively, to non-residents in the Republic of Moldova.

Other services

- The value of manufacturing services on physical inputs owned by others is calculated based on Customs' data on the imports / exports of goods.
- ITRS data are used as basis for calculating the value of construction, maintenance and repair services, information and computer services, other business services, and partly government services.
- The value of postal and currier services, telecommunications services, personal, cultural, and recreational services is calculated based on NBS data on the external trade in services.

- The exports of insurance services are calculated based on NBS data, while the imports of insurance services are estimated by applying a coefficient to the value of insurance premiums paid by residents to foreign insurance companies, obtained from the ITRS. Additionally, estimations are made for vehicle insurance services based on the number of vehicles imported by individuals.
- Financial services are calculated based both on the information collected through the ITRS and on estimations made relying on the information about the weighted average interest rates provided by the NBM subdivisions and on the Ministry of Finance data.
- Government goods and services are calculated on the basis of data about the flow of currency on the accounts of Moldovan embassies and consulates abroad.
- The value of government services is estimated from the amount of technical assistance provided by international organizations and foreign governments to the Republic of Moldova.

Primary income

- The compensation of residents for the work performed for non-resident employers is estimated using the personal remittances in the balance of payments calculation model (see the respective section).
- The compensation of non-residents employed in the Republic of Moldova is estimated based on the value of technical assistance and the information collected via the ITRS. Based on the ITRS data, value thresholds are set for the partitioning of money transfers made by individuals from the Republic of Moldova in favour of non-residents by type of transaction: (a) compensation of non-resident employees and personal current transfers; (b) capital transfers between households; (c) direct investment (assets).
- Reinvested earnings are assessed on the basis of data about the operating results of companies with foreign or joint capital, as well as on the basis of ITRS data on dividends paid. According to the current operating performance concept, only net results from the operational activity are considered, excluding the income / losses from the financial activity arising from exchange rate fluctuations, as well as from the investment activity. Dividends received by residents from direct investment abroad are estimated based on ITRS data.

Secondary income

- Current personal transfers are estimated based on the personal remittances calculation model within the balance of payments (see the corresponding chapter).
- Exports of goods by duty-free stores are used for the estimation of the value of goods purchased by residents when leaving the country to be subsequently offered as gifts to non-residents.
- The estimation of secondary income related to publicly-funded education and professional training sponsored by international organizations and foreign governments is made on the basis of data obtained from the institutions concerned.
- Secondary income related to the taxes and fees paid by residents in countries where they work is calculated by applying a coefficient to the value of the compensation of employees.

- Secondary income related to insurances (other than life insurance) is calculated as difference between insurance premium amounts and the estimated value of insurance services.
- Technical assistance and grants offered by foreign donors are evaluated based on project budgets available on the Aid Management Platform. The value attributed to the reporting period is approximately estimated and supplemented with data on assistance offered to other entities, not included in these projects, on the basis of the information from the ITRS. Technical assistance and grants are estimated on the gross basis and cover the total value of projects: both money transferred from donors to the country, and the expenses made abroad on the respective projects.

Capital transfers

- Capital transfers of the general government sector are calculated on the basis of data on external assistance, of which transfers for investment projects are separately identified.
- Capital transfers between households are estimated using the personal remittances in the balance of payments calculation model.

Personal remittances in the balance of payments

There is no separate item in the balance of payments, neither a group of items, the sum of which constitutes the personal remittances of individuals. Given that this indicator is one of greater interest for the Republic of Moldova, the NBM has elaborated an algorithm for estimating their components and personal remittances presentation by geographical area. The indicator of personal remittances is calculated additionally to the BOP and is shown separately as a supplementary item.

Table 1. *Personal remittances in the balance of payments*

Personal remittances a+b+c		
a. Personal transfers	b. Compensation of employees minus taxes and fees, social contributions, transport and living expenditures in the host country	c. Capital transfers between households

The estimations are based on (1) data on money transfers from abroad in favour of individuals made through licensed banks and postal offices; (2) estimated turnover of individuals' transactions in foreign exchange; (3) Labour Force Survey conducted by the NBS.

In order to estimate the funds transmitted to the country through other channels than licensed banks or postal offices, the evolution of resident individuals' deposits is analyzed, as well as the evolution of cash in foreign currency held by licensed banks, the turnovers of foreign exchange offices, and the evolution of real estate and motor car markets. The propensity to save of individuals receiving remittances from abroad and the evolution of these households' consumption in the respective period are also taken into account.

On the basis of the ITRS data, value thresholds are set for the partitioning of money transfers made by individuals from abroad in favour of those from the Republic of Moldova by type of transaction: (a) compensation of employees and current personal transfers; (b) capital transfers between households; (3) other sectors' transfers, including NPISHs.

Data from the labor force survey are used to estimate individuals' residence.

Direct investment

- ***Net acquisition of financial assets – equity and shares, other than reinvestment of earnings, and debt instruments*** – are assessed on the basis of the ITRS data, data from the Debt Management and Financial Analysis System (DMFAS) database on external loans to non-residents (affiliated companies and foreign investors) and information about authorized foreign exchange operations. Loans between resident banks, investment funds, as well as other financial intermediaries (excluding insurance companies and pension funds) and their affiliated enterprises abroad are recorded under *Other investment*.
- ***Net incurrence of liabilities – equity and shares, other than reinvestment of earnings, and debt instruments*** – are assessed on the basis of reports on licensed banks' shareholders, reports on the changes in licensed banks' equity capital, data on securities issuances with non-residents' participation, and transactions in securities in the secondary market involving non-residents (received from the NCFM), as well as on the basis of the ITRS data, data from the statistical report 1-Invest received from the NBS, balance sheets and profit and loss statements (Annexes 1, 3 to N.A.S. "Presentation of financial statements") and data from the DMFAS database on external loans offered by non-residents to affiliated companies or investors from the Republic of Moldova. Loans between resident banks, investment funds, as well as other financial intermediaries (excluding insurance companies and pension funds) and their foreign direct investors or affiliated enterprises abroad are recorded under *Other investment*.

Portfolio investment

The main sources for the elaboration of indicators are ITRS data and NCFM reports on transactions in primary and secondary markets, information from the database of the statistical report "1-Invest" from the NBS, the information on banks' non-resident shareholders from the „Report on bank' shareholders", reports on licensed banks equity changes and the information provided by the Single Central Depository. Information from the reports of authorized banks on open foreign exchange position and foreign securities is used as well.

Financial derivatives

The only available source for assessing the financial derivatives is the ITRS.

Other investment

Currency and deposits are estimated on the basis of detailed daily and monthly reports from authorized banks, information on turnovers in direct accounts of resident economic agents abroad, and an estimation model of foreign exchange cash turnovers by individuals. The essence of the model consists in comparing the estimated net inflow of personal remittances during the reporting period and the data on foreign exchange demand and supply in the market, along with the evolution of new deposits and withdrawals of deposits by individuals, and the data on changes in the value of residents' deposits with banks abroad, based on the BIS statistics.

Loans are compiled on the basis of ITRS and DMFAS data. The main source is the DMFAS database, at loan level, notified to the NBM for private loans, and for public loans by the Ministry of Finance. At the level of debtor economic entity, the DMFAS data are complemented by the ITRS data, which reflect all the transactions with non-residents, including with those loans that, according to national regulations, are not subject to notification or for which reports are missing / incomplete for the reference period. To avoid overlapping, the information is checked at the level of resident debtor economic agent – non-resident creditor by "loan by loan" principle.

Trade credit and advances are estimated quarterly based on the comparison of payments / receipts recorded in the ITRS for exports / imports of goods to customs declarations data, at the level of individual economic agent for different types of trade transactions: definitive purchase/sale, provision of materials and equipment for installation and construction works, and other, and to customs data on non-equivalent barter. Additionally, trade credit and advances related to international trade in services are estimated.

Calculations exclude: the transactions of agents with non-commercial activity, transactions not involving payments (e.g. humanitarian aid or grants and technical assistance projects), payments that do not involve supply of goods (refunds of advances paid or received), transactions that duplicate other sources (within loan contracts), as well as transactions involving residents in which goods do not cross the country's border (e.g. in case of intermediation in trade, when both sales and purchases take place abroad). The same method is applied both for trade credits and advances received from foreign partners and for trade credits and advances offered to non-residents.

Quarterly and yearly preliminary data are updated in the final version of the balance of payments based on the yearly report from the NBS *„Explanatory note on advances, investment, loans, and settlements with foreign clients"* (before 2015) and the Annex 9 "*Information note on relations with non-residents*" to NAS "*Presentation of financial statements*" (2016-2019). Starting from 2020, information from the *annual report 1-Invest on Foreign investment allocated by enterprises in the economy of Moldova and transactions with non-residents* has been used, and for validation / verification purposes, individual data from the Balance sheet and profit and loss statements (Annexes 1, 3 to N.A.S.) of enterprises reporting 1-Invest annually.

Other accounts receivable / payable - other have as a source the indicators from other items with their specific data sources, related to claims or liabilities that arise because of the inconsistency between the moment of transaction and the moment when payment / receipt is made, other than those reflected in trade credits and advances.

Reserve assets

The reserve assets flows are calculated daily on the basis of the NBM's currency positions at the official cross-rates of original currencies against the US dollar. High value transactions data are cross-checked with SRTI information. Securities within the reserve assets are revalued monthly at the market price appropriate for each instrument on the last day of the reference month. The interest calculated for deposits is recorded daily and for securities in foreign currencies – monthly.

1.3. METHODOLOGICAL STANDARDS ON THE INTERNATIONAL INVESTMENT POSITION OF THE REPUBLIC OF MOLDOVA

The international investment position (IIP) of the Republic of Moldova is elaborated in accordance with the standards recommended by the International Monetary Fund in the *Balance of Payments and International Investment Position Manual*, the 6th edition (BPM6, 2009). The IIP data are integrated and reconciled with the External debt (positions) and the BOP (flows) data, which is reflected in the ***Other changes in financial assets and liabilities account***.

The international investment position is a statistical statement that shows at a point in time (*end of quarter, semester, 9 months or end of year*) the value and composition of:

1. Financial assets of residents of an economy that are claims on non-residents and gold held as reserve assets;
2. Liabilities of residents of an economy to non-residents.

The difference between assets and liabilities constitutes the net IIP and represents a net claim (is net credit when financial assets exceed liabilities) or a net liability (is net debit when liabilities exceed financial assets) to the rest of the world.

The IIP items and classifications are identical to those of the balance of payments financial account. Thus, the IIP items are classified as follows:

- By functional categories - direct investment, portfolio investment, financial derivatives (other than reserves), other investment, and reserve assets;
- By financial instruments - according to broad categories (i) equity and investment fund shares; (ii) debt instruments; SDRs, currency and deposits, debt securities, loans, trade credit and advances; other accounts payable / receivable - other and (iii) other financial assets / liabilities, monetary gold, financial derivatives;
- By resident's institutional sector - central bank; deposit-taking corporations, except the central bank; general government, and other sectors, which are further divided into: other financial corporations, non-financial corporations, households and non-profit institutions serving households;
- By maturity (for debt instruments) - short-term or long-term (for debt instruments according to initial / original maturity).

The value of the IIP at the end of a period results from the position at the end of the previous period, transactions recorded during the current period, and other changes that arise from reasons other than transactions between residents and non-residents, that may be attributed to other changes in volume and revaluations (due to exchange rate changes and other price changes).

Other changes in financial assets and liabilities account shows all changes in financial positions, including those that arise for reasons other than BOP transactions:

- Other changes in volume than those recorded in the BOP;
- Revaluations due to other price changes;
- Revaluations due to exchange rate changes.

Transactions and positions are generally valued at market prices. The preferable valuation used for positions in non-negotiable instruments (loans, trade credit and advances, currency and deposits, and other accounts receivable / payable - other) is nominal value, except liabilities on loans that are valued at amortized value and trade credit and advances that are valued at book value. At book value are also valued positions in equity (within the Direct and Portfolio Investment). At the same time, transactions in these instruments are valued at market prices and the discrepancy between the valuation of transactions at market prices and the valuation of positions at nominal value (or book and amortized value) is recorded at "*Changes due to price changes*".

Revaluation related to exchange rate changes reflects the change in the value of a financial instrument as a result of its conversion from the original currency into US dollars, the unit of account accepted for valuation of positions and flows of financial assets and liabilities in the process of international accounts compilation, or into another reference currency for compilation, for example EUR.

Other changes in the volume of financial assets and liabilities are changes in the value of these assets and liabilities that are due neither to transactions nor to revaluation. These changes include those due to write-offs, reclassification, and the changes in financial assets arising from the changing of residence by the institutional units, as a result of conversion / disposal of financial assets / liabilities.

The structure and the components of the IIP for analytical purposes are presented in various classifications and levels of aggregation:

i. by functional category and according to broad categories of financial instruments, reflecting positions and all the components of their modification, separately for assets and liabilities;
ii. by financial instruments, for assets and liabilities;
iii. by functional categories and financial instruments, for assets and liabilities;
iv. by institutional sectors and functional categories, where the institutional sector is that of the resident (the domestic owner's or creditor's sector in the case of assets and the domestic issuer's or debtor's sector in the case of liabilities);
v. by maturity (long-term and short-term), including functional categories and financial instruments, for assets and liabilities separately.
vi. by original currency of the financial instruments for assets and liabilities briefly emphasising the moldovan leu and other and othe currencies.

Unlike the IIP with a standard structure, which shows the financial situation of the country vis-a-vis the rest of the world at a point in time, over a defined interval with a fixed periodicity, the *IIP statement with additional details* (Table 2) supplementary covers the data on the position at the beginning and at the end of the period and the *Other changes in financial assets and liabilities account*. Such a presentation form emphasizes the connections between the positions at the beginning of period, BOP financial account transactions and other changes in financial assets and liabilities during the respective period, and the positions at the end of the period.

Data sources used for the international investment position compilation are identical to those used for the compilation of the balance of payments financial account.

Table 2. *Integrated International investment position statement – main aggregates*

	Beginning of period IIP	Financial account transactions	Other changes in assets and liabilities account: Changes in position due to: other price changes	exchange rate changes	other changes in volume	End of period IIP
Net international investment position						
Assets						
Direct investment						
Equity and investment fund shares						
Equity and shares (including the reinvestment of earnings)						
Debt instruments						
Portfolio investment						
Equity and investment fund shares						
Debt securities						
Financial derivatives (other than reserves)						
Other investment						
Other equity						
Currency and deposits						
Loans						
Insurance, pension, and standardized guarantee schemes						
Trade credits and advances						
Other accounts receivable						
Reserve assets						
Liabilities						
Direct investment						
Equity and investment fund shares						
Equity and shares (including the reinvestment of earnings)						
Debt instruments						
Portfolio investment						
Equity and investment fund shares						
Debt securities						
Financial derivatives (other than reserves)						
Other investment						
Other equity						
Currency and deposits						
Loans						
Insurance, pension, and standardized guarantee schemes						
Trade credits and advances						
Other accounts payable						
Special drawing rights (allocations)						

1.4. METHODOLOGICAL STANDARDS ON THE EXTERNAL DEBT OF THE REPUBLIC OF MOLDOVA

The external debt is compiled according to the standards recommended by the International Monetary Fund in *External Debt Statistics: Guide for Compilers and Users* (2013) (EDS, 2013).

The **gross external debt** of the Republic of Moldova, at a given time, is the sum of all current, and not contingent, actual liabilities of residents to non-residents that require payment(s) of principal and / or interest by the debtor at some point(s) in the future.

The country's external debt consists of the following liabilities, in form of:

- Portfolio investment – debt securities;
- Loans;
- SDR allocations;
- Currency and deposits;
- Trade credits and advances;
- Other debt liabilities;
- Direct investment: intercompany lending.

Portfolio investment – debt instruments include debt securities issued by Moldovan residents, held by non-residents, including government securities issued to be placed in the domestic market of the Republic of Moldova[1], purchased by non-residents .

Debt securities are divided by issuer's sector and by type of financial instrument.

The position of portfolio investment liabilities at a given time is the sum of debt securities issued by Moldovan residents and held by non-residents, minus overdue securities plus accrued interest for the reported period, if the interest payment is scheduled for a future period.

Loans comprise:

– loans of the central bank – loans contracted from the IMF and used by the NBM;
– general government loans (state loans and loans of administrative-territorial units (ATU)) – external loans contracted and used by the central and local government on behalf of the Republic of Moldova;
– private loans guaranteed by the government – external loans contracted with governmental guarantees and used by the private sector;
– loans of public corporations – external loans contracted and used by economic entities where the government and / or ATU hold more than 50% of the equity;
– private loans – external loans contracted and used by the private sector (deposit-taking corporations except the central bank and other sectors) with the exception of loans from affiliated non-resident companies reflected under intercompany lending item.

[1] *According to the Law of the Republic of Moldova on public sector debt, governmental guarantees and government refinancing no. 419 of 22.12.2006, in force since 09.09.2007, debt securities issued by the government in order to be placed in the domestic market of the Republic of Moldova and purchased by non-residents are attributed to the internal government debt by the Ministry of Finance, but represent a component of the external debt according to the IMF recommendations on the elaboration of international accounts statistics.*

The position of liabilities in the form of loans at a given time is the total amount of external loans contracted and used by Moldovan residents minus actual payments on principal, plus interest arrears and minus their repayment.

SDR allocations are a long-term liability of the recipient country to the IMF for two reasons: recipient countries pay an interest on the respective allocations and will need to return them to the IMF under certain circumstances, such as termination of participation in the IMF SDR Department or its liquidation, ceasing of the IMF membership status.

Currency and deposits include non-residents' sight and time deposits with the national banking system and other resident financial corporations.

Trade credits and advances are liabilities in the form of credits and advances extended by suppliers or buyers in commercial transactions in goods or services. They include:

- advance payments received by economic agents from non-residents for goods and services and for ongoing works (or which are to be undertaken);
- liabilities arising from barter transactions in goods of non-equivalent value (when the value of imports exceeds the value of exports);
- commitments resulting from deferred payments or staged payments for goods where the moment of transfer of ownership rights differs from the moment of payment.

Other debt liabilities cover liabilities related to transactions in investments, liabilities on dividends distribution, taxes, insurance premiums, other miscellaneous liabilities not yet extinguished in relations with non-residents.

Intercompany lending – liabilities of direct investment enterprises to their direct investors from abroad and liabilities of resident direct investors to enterprises from abroad where they are founders (reverse investment), in the form of loans, trade credit and advances, other liabilities.

The position of liabilities in the form of *intercompany loans* at a given time is the amount of external loans contracted and used by resident economic entities from their non-resident direct investors / direct investment enterprises from abroad where residents are founders minus actual principal payments, plus interest arrears.

According to the *EDS 2013*, the arrears on external loans and debt securities service representing the amounts of principal due for payment and interest accrued and not paid, are considered as part of the original financial instrument stock generating the debt and are additionally reflected as a memorandum item.

The external debt is disaggregated by *institutional sectors*, following the BOP and IIP classification: central bank, general government, deposit-taking corporations except the central bank, other sectors (other financial corporations, non-financial corporations, households and NPISHs). External liabilities are attributed to the direct borrower's sector; they are classified at the guarantor's sector only when the guarantee is activated.

For analytical purposes the external debt is presented by the original / initial *maturity* of the financial instruments: short-term and long-term, by the original *currency* of debt instruments, including sectorial distribution, by debtor's type: **public** and **private** and by main creditors.

- The **external public debt** is a component of public debt (Law on public debt, governmental guarantees, and governmental refinancing no. 419 of 12/22/2006). It includes the governmental debt, the debt of ATU, the debt of the NBM, debt of public corporations, and, additionally, as an exception to the above-mentioned law, government securities held by non-residents.

- The ***external governmental (state) debt*** represents the total amount of outstanding liabilities, contracted from non-residents by the government on behalf of the Republic of Moldova through the Ministry of Finance, and consists of the direct external governmental (state) debt and the publicly guaranteed assumed external debt.
    - The *direct external governmental (state) debt* includes the external liabilities of the government, when the government acts in the capacity of debtor.
    - *Publicly guaranteed assumed external debt* includes external governmental liabilities arising from the government's duty to execute the state guarantee when the debtor (guarantee beneficiary) fails to meet their obligations towards the creditor, according to the provisions of the state guarantee contract.
- The ***external debt of ATU*** includes current and mature external liabilities in the form of loans, as well as unpaid interest due on them, owed and outstanding, contracted and used by local public authorities.
- The ***external debt of the National Bank of Moldova*** includes loans from the IMF used by the NBM.
- The ***external debt of public corporations*** includes current and mature external liabilities in the form of loans and unpaid interest due on them, owed and outstanding, contracted and used by business entities where the government and / or ATU hold more than 50% of the equity capital.

The **external private debt** comprises the liabilities of the private sector not meeting the definition of public debt (of deposit-taking corporations except the central bank and of other private entities, including private companies with foreign capital) to non-residents, contracted with or without governmental guarantee and serviced by the private sector.

In order to monitor risks and analyze the sustainability of external debt, several additional ED statistics were developed. At the World Bank (WB) request, a set of predefined indicators is reported and published in the Quarterly External Debt Statistics (QEDS) database, jointly developed by the WB and the IMF. These statistics are consistent with the concepts, definitions and classifications used in the Gross External Debt presentations, but with an expanded coverage, which improves the analytical use of the data. The IMF member countries are encouraged to report external debt data to the QEDS database. The Republic of Moldova reports external debt statistics to the WB by virture of compliance with the SDDS (Special Data Dissemination Standard) as a member of the IMF.

QEDS statistics consists of 4 main tables:

T.1. *Gross external debt position by sector* (the table compiled and dissiminated quarterly by the NBM);

T.2. *Gross external debt position: foreign currency and domestic currency denominated debt*;

T.3. *Debt-service payment schedule for outstanding external debt as of end-period - by sector*;

T.4. *Gross external debt position: principal and interest payments due in one year or less – by sector*.

Additional indicators are produced in tables T.2, T.3 and T.4, namely: (i) external debt denominated in foreign and domestic currencies; (ii) schedule of projected debt service payments for outstanding external debt for one year or less, more than one year up to two years and more than two years; (iii) principal and interest payments due to be paid in one year or less for the outstanding external debt by remaining maturity[2]. These data are not published in other tables produced by the NBM.

7 suplementary tables with complementary details are compiled also, of which: arrears by sector; net external debt position with all standard components; and, reconciliation of positions and flows.

QEDS statistics are compiled according to the recommendations and definitions set forth in the EDS 2013 guide and the BPM6 manual.

Data sources used for the external debt compilation are identical to those used for the compilation of the balance of payments financial account and the international investment position.

2 The EDS Guide recommends that short-term remaining maturity be measured by adding the value of outstanding short-term external debt (original maturity) to the value of outstanding long-term external debt (original maturity) due to be paid in one year or less starting with reference date.