

METHODOLOGICAL STANDARDS

INTRODUCTION

International accounts represent a synthesis of the economic relations between residents and non-residents. These are a succession of independent accounts, the link between them being achieved through certain accounts / transitional items that ensure the reconciliation of data presented in a series of syntheses with different structure and level of aggregation. The following international macroeconomic accounts may be mentioned:

- **Balance of payments (BOP)** which 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);
- **International investment position (IIP)** which is the value of financial assets of residents of an economy 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** which shows 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 (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 *which reflects the link between the positions reflected in the IIP and the actual flows from the financial account of the BOP*, being presented in the integrated IIP;
- **Gross external debt (ED)** is a macroeconomic statement that shows at a point in time the position of those components of external liabilities that are debt instruments (Portfolio Investment, Loans, Special Drawing Rights (allocations), Currency and deposits, Trade credits and advances, 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 of the balance of payments, are balanced on double entry principle basis,
2. the sum of balances of the current account and capital account conceptually shall be equal to the financial account balance, which represents *coverage/the net lending (+) or the net borrowing (-) recorded in the current and capital account through net acquisition of financial assets and net accumulation of financial liabilities in the financial account* during the reporting period. Although the concept implies their equality, in practice they differ, and the difference is reflected in the article net errors and omissions, designed to identify deficiencies in the recording of transactions, resulting in practice mainly from the peculiarities / absence of data sources and time lags,
3. financial instruments whose flows are shown in the financial account of the BOP and positions are reflected in the IIP, 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 net 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 relations between residents and non-residents and serve as a basis for the analysis and evaluation of its international economic activity and external economic policy of the country. 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 548/1995.

These are elaborated quarterly and annually in million US dollars. The information from these official 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 / notification of the revisions made, according to the following policy:

- quarterly data are preliminary data and are revised 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, in the case of positions, these updates may cover longer periods of time, as needed.

The causes and reasons for the revisions / updates are presented in the Statistical Yearbook International Accounts of the Republic of Moldova.

Data confidentiality. In accordance with the provisions of the Law No 548/1995 on the National Bank of Moldova and the Law No 93/2017 on Official Statistics, the National Bank of Moldova (NBM) shall ensure the security and confidentiality of data collected and used in the compilation of official statistics. Collected data are used only for the production of official statistics, being presented only in the form of aggregated indicators and analyses.

Data dissemination. International accounts statistics is disseminated in accordance with the provisions of the Law on the National Bank of Moldova (No 548/1995), Article 69 (5) and in accordance with Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF), a commitment assumed by the Republic of Moldova in May 2006. To ensure transparency and to inform users, the dissemination terms are stipulated in the Advance Release Calendar (ARC) of IMF and in the data dissemination calendar published on the official website of the NBM. It should be noted that in addition to the SDDS requirements, data on the Coordinated Direct Investment Survey (in distribution by country and geographic regions) are presented annually based on the recommendations of the "Guidelines of the Coordinated Direct Investment Survey" (2015), which corresponds to the SDDS Plus standard, which the Republic of Moldova intends to implement.

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 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 compiled and disseminated:

- *personal remittances (quarterly)* compiled according to the recommendations specified in “*International Transactions in Remittances – Guide for compilers and users*” (2009), total and by geographical regions;
- *direct investment, according to the directional principle (quarterly)*;
- *direct investment according to the directional principle (quarterly)* in the Coordinated Direct Investment Survey (in distribution by countries, industries, and by geographic regions) 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)), which also include indicators on short-term external debt by remaining maturity.

1.1. DEFINITIONS AND GENERAL PRINCIPLES

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

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.

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

Households are considered residents of an economic territory when the members of these households have the predominant centre of economic interest and 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.

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 known 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, but also the typology of transactions, in the balance of payments are reflected:

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

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 double recorded, once as credit and another as debit.

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 / financial and non-monetary,
- 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 (e.g. transport services) or indirectly measured (e.g. FISIM – Financial intermediation services indirectly measured);
- in terms of recording, there can be imputed transactions, re-routed (e.g. 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 equivalent economic 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 – at 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.

Other flows reflects economic phenomena that capture changes in the value of assets and liabilities of an economy during the reporting period, other than 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 **Other changes in financial assets and liabilities account** being published in the Integrated IIP. Other flows are classified into two major categories:

- Other changes in the volume of financial assets and liabilities,
- Revaluations of financial assets or liabilities, which arise from changes in their price or the exchange rate fluctuations of the original currency against the valuation currency / IA calculation during the reference period.

Other changes in the volume of financial assets / liabilities include unilateral debt *cancellation* by the creditor; *changes in the classification of assets / liabilities and in their composition*; *change in the residency status of the institutional unit that owns financial assets and liabilities or their reorganisation / restructuring, monetization, and demonetization of gold bullion* and others.

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 and is referred mainly to the government debt.

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 entity corresponding to the following criteria:

1. it is engaged in economic activity and has the right to dispose the goods and assets in its own name and, respectively, can carry out transactions for exchange the ownership of goods and assets 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 an own set of accounts (including accounting documents and a balance sheet of its assets and liabilities).

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 legislation in force or corporation, separate from the persons or entities that own or control them.
3. Quasi-corporations are enterprises without legal status, but which operates as if they were separate units from their owners.

Institutional units are grouped into institutional sectors. Transactions are assigned to the institutional sector of which the participating resident institutional unit is part.

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, money transfers operators, insurance intermediaries,
 5. insurance corporations,
 6. pension funds.
- ***Non-financial corporations, households and non-profit institutions serving households***
 - *non-financial corporations,*
 - *households,*
 - *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.

Table 1. Balance of payments in standard presentation - main aggregates

	Credit	Debit	Net
Current account			
Goods and services			
Goods			
Services			
Primary income			
<i>Compensation of employees</i>			
<i>Income on equity and investment fund shares</i>			
<i>Dividends and withdrawals from income of quasi-corporations</i>			
<i>Reinvested earnings</i>			
<i>Rent</i>			
Secondary income			
<i>Current taxes on income, wealth, etc.</i>			
<i>Social contributions</i>			
<i>Social benefits</i>			
<i>Net nonlife insurance premiums</i>			
<i>Nonlife insurance claims</i>			
<i>Current international cooperation</i>			
<i>Miscellaneous current transfers</i>			
Capital account			
Gross acquisition/disposal of non-financial non-produced assets			
Capital transfers			
Net lending (+) / net borrowing (-) (balance from current and capital account)			
	Net acquisition of financial assets	Net accumulation of liabilities	Net
Net lending (+) / Net borrowing (-) (balance of financial account)			
Direct investment			
Portfolio investment			
Financial derivatives (other than reserves) and employee stock options			
Other investment			
<i>Currency and deposits</i>			
<i>Loans</i>			
<i>Trade credits and advances</i>			
<i>Other receivables / payable - other</i>			
Special drawing rights (allocations)			
Reserve assets			
Net errors and omissions			

According to the standard presentation of the BOP (Table 1), indicators in the current and capital accounts are presented on a gross basis as the sum of all transactions recorded in the respective item, separately 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 financial assets and liabilities, separately for *net acquisition of financial assets* and *net incurrence of liabilities*. *Net acquisition of financial assets* represents the difference between BOP transactions of increase in residents' financial assets and those of their reduction, while *net*

incurrence of liabilities is equal to the difference between BOP transactions of increase / incurrence of liabilities and the reduction / extinguishing them.

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 with separate presentation of debits and credits (with certain exceptions - *currency and deposits, trade credits and advances*).

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*.

To **Goods** are reflected 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). A special case is goods procured in the reporting period and temporarily stored abroad, to be subsequently brought into the country for consumption, which are reflected in BOP when the change of ownership took place, regardless of the period in which they will be entered the country. This also includes transactions in e-commerce goods and e-wallets, but also goods purchased by travellers for trading in their own or another economy. 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, goods procured by travellers for use/consumption during their stay abroad – to travel.

In BOP there are three important categories of goods:

- *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*.

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

To **services** is recorded the value of services provided 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, which represents the value of services.

- *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.
- *Transport* is the process of international carriage of people and goods from one location to another, 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). Exports reflects goods and services acquired by non-residents during their visits in the Republic of Moldova. Imports 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. 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).
 - *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, education- and health-related purposes), as well as refugees or other types of migrants with a residence period under one year.
- *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.
 - *Financial intermediation services indirectly measured (FISIM)* presents 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:
 - *Construction abroad* – consists of construction works for non-residents by enterprises resident in the compiling economy (exports) and the goods and services acquired from the economy in which the construction activity is being undertaken by these enterprises (imports),
 - *Construction in the compiling economy* – consists of construction work for residents of the compiling economy by non-resident construction enterprises (imports) and the goods and services acquired in the compiling economy by these non-resident construction enterprises (exports).
- *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 research in engineering projects.
 - *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 scientific 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).
- *Government goods and services (n.i.e.) include:*
 - *Transactions performed by embassies and consulates*, which 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,
 - *Transactions performed by military bases and units*, that include maintenance costs incurred in the country of location, and also military personnel expenditure,
 - *Other goods and services of general government (n.i.e)*, that 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 from non-residents 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).

To **primary income** is presented the income 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, and 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 reinvested earnings)

and income from debt instruments (interest) are the most common types of investment income:

1. *Dividends* 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, 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 taxes on production and imports, subsidies and rent.

Taxes on production and imports include value added taxes on the shipment / import of taxable goods or services, customs duties, and excise fees. 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, based on available 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 abroad to resident individuals are shown as negative debits (*other sectors*).

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*. 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.

To ***secondary income*** are included 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. Secondary income reflects transfers that are 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 net 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 non-pension 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 with 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.

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-fulfilment 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, 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. This is where, for example, contracts for the permanent transfer of athletes/players (e.g. football), the definitive and irrevocable exchange of intellectual property rights (their disposal/sale) are registered.

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

By functional category, transactions may be classified to *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 the following categories of instruments: (1) equity and investment fund shares, (2) debt instruments (special drawing rights, currency and deposits, securities, loans, insurance, pension and standardised guarantee schemes, trade credits and advances, other claims and liabilities and (3) other financial assets and liabilities (monetary gold, financial derivatives and employee stock options).

Direct investment presents cross-border transactions of residents one of an economy (direct investors) having control or a significant degree of influence on the management of enterprises residents in another economy (direct investment enterprises). Following the international standards, the direct or indirect ownership of 10% or more of the voting power of an enterprise 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*. Currently the compiled statistics are based on information on direct ownership of share in equity.

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 transactions 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.
- *Debt instruments* represent transactions with 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. This item also includes transactions with 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 with 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.

When assessing the amounts of reinvested earnings, situations can arise regarding super dividends 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 super dividend 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, e.g. bills, negotiable certificates of deposit, asset-backed securities, money market instruments, etc.

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

Financial derivatives (other than reserves) shows transactions with 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

transactions, 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. In International accounts of the Republic of Moldova transactions with financial derivatives aren't reflected due to their absence. **Other investment** includes transactions 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 instruments, by institutional sector and by original 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 participation other than in the form of equity. Other equity is included in *Other investment* when it is not direct investment, portfolio investment or reserve assets. For instance, participation in some international organizations, economic or monetary unions, which are 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 offered by deposit-taking institutions, allowing the placement and the later withdrawal of a variable amount of money by the creditor. Transactions with *currency and deposits* are reflected on a net basis only, as the difference between transactions of increase and those of decrease (net lending or net borrowing).

Loans include assets and liabilities that appear as a result of temporary lending of a financial value directly to a debtor by a creditor, without a negotiable 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 now of liabilities extinction (for example, at the moment of actual payment of the principal, rescheduling, or loan forgiveness by the creditor).

Interest on loans is calculated at the moment of due-to-payment. Arrears on interest payable are included under *loans* 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 (deferred / delayed payments) for deliveries/services provided, and advances 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). 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 until the related payments being collected. Transactions related to trade credits and advances are reflected on net basis only, as the difference between transactions of increase and those of decrease (net lending or net borrowing).

Other accounts receivable / payable – *other* show transactions with the financial assets and liabilities of other types than those listed above. 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 allocations. Special drawing rights (SDR) 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). SDR allocations represent a specific financing instrument. 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.

To **Reserve assets** are reflected transactions with official external assets administered by monetary authorities, in the case of the Republic of Moldova by the National Bank of Moldova. Reserve assets 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 of resident monetary authorities to non-resident monetary authorities (national central banks), BIS, 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) should be zero.

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, or for special cases as in the case of goods under merchanting (the acquisition of goods by merchants is shown as a *negative* export rather than as an

import), returns or refunds (such as taxes) or 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. Examples of transactions generating inflows of financial means and are recorded:

– 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. Examples of transactions generating outflows of financial means and are recorded:

– on debit:

- ✓ imports of goods and services, compensation of non-resident employees by residents employers 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 (omissions / double recording of transaction, errors), 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 producers of information used for the BOP indicators compiling are the National Bureau of Statistics of the Republic of Moldova (data on trade in goods, services, direct investment of other sectors), financial sector institutions (i.e. licensed banks, foreign exchange offices etc), NBM departments, ministries and public authorities of the Republic of Moldova (State Chancellery, Ministry of Finance; Ministry of Foreign Affairs and European Integration, Ministry of Education and Research; Bureau of Migration and Asylum, Public Services Agency (PSA)), 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 processed together with data from the International Transaction Reporting System (ITRS). Under ITRS, 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) resident economic agents, having accounts with banks abroad, based on authorizations issued by the NBM and report on the flow of funds in those accounts.

In addition to the collected data via statistical reports, some **estimations** and **adjustments** are made to improve data quality and completeness:

Goods

Data on imports / exports of goods recorded by the Customs Service, processed by the NBS and then passed to the NBM, are methodologically adjusted to derive aggregates according to the balance of payments methodology. The most significant adjustments are:

1. excluding exports/imports of goods after/for processing, for which no change in ownership occurs;
2. excluding from export the value of goods sold by duty-free stores that are considered mainly to be purchased by non-residents and are included in travel services;
3. adjusting the value of imports from CIF to FOB prices, excluding the cost of insurance and transport services, which are estimated at 10% of the CIF value of imports from the CIS countries and 6% - from the rest of the countries. The exception are imports from Romania and Ukraine for which this adjustment are not made;
4. excluding the value of goods for repair or storage without change of ownership,
5. excluding the value of migrants' and immigrants' personal property;
6. including the data recorded by the Customs Service on the import/export of goods by individuals, supplemented with NBM estimates;
7. including the data based on the ITRS and the reports of economic agents, as estimated value of goods purchased by international carriers (air, sea and road transportation) residents of other countries, in ports and airports in countries other than the country of residence;
8. including the value of net exports of goods under merchanting;
9. the adjustment of the imports of natural gas value according to the change of ownership principle, is applied in cases when the purchase and temporary storage abroad takes place in other reporting periods than their imports in the Republic of Moldova.

Services

Transport

- The imports of freight services are estimated based on 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);
- Additional estimates are done to auxiliary transport services based on ITRS data, which is the basic source;
- 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, completed by the information obtained from the ITRS;
- Based on the NBS data on external trade in services, the value of postal and courier services is calculated;
- 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

- 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.
- A part of non-resident travellers consumption distributed estimative on sub-articles is determined based on the data concerning the sale / purchase of foreign currency by exchange offices.
- 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 based on 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.
- The consumption of non-resident refugees on the territory of the country is estimated, this includes expenditure from personal resources and costs incurred by residents of the country. The latter are recorded as double entry against secondary income.

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 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 based on 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.
- Reinvested earnings are assessed on the basis of data about the operating results of companies with foreign or joint capital, according to the current operating performance concept. Only net results from the operational activity are considered, excluding the income / losses from exchange rate fluctuations, as well as from re-evaluation. 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 section).
- 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 based on 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

Table 2. 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

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 a model for estimating their components and personal remittances presentation by geographical area.

The estimations are based on (1) data on money transfers from abroad in favour of individuals made through licensed banks, payment service providers 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 formal ones - licensed banks, money transfer system or postal offices, the evolution of resident individuals' deposits is analysed, as well as the main types of expenditure in cash based on 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 considered.

Based on 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; (c) other sectors' transfers, including NPISHs.

Data from the labour 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 based on the ITRS data, and information about authorized foreign exchange operations. Loans between resident banks, investment funds, as well as other financial resident 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 data from the database of the statistical report "1-Invest" collected by the NBS, on 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, and data from the DMFAS database on external loans offered by non-residents to affiliated companies or investors from the Republic of Moldova. Balance sheets and profit and loss statements (Annexes 1, 3 to the CNS "Presentation of Financial Statements") are used as a source of information for verification/completion of information. Similar to assets, 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, recording the absence of transactions with financial derivatives.

Other investment

Currency and deposits are estimated based on detailed daily and monthly reports from authorized banks, information on turnovers in authorized accounts of resident economic agents abroad, and an estimation model of foreign exchange cash turnovers by individuals. The essence of the model consists in preparation of estimates of informal net cash inflows/outflows of individuals (households), based on 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 based on ITRS and DMFAS data. The main source is the DMFAS database, where records are kept at loan level, by the NBM for private loans (based on the notification and authorization procedure of external liabilities) and for public loans by the Ministry of Finance. At the debtor level, the DMFAS data are complemented by the ITRS data, which reflect all transactions with non-residents, thus completing the information from the DMFAS with transactions including the loans that, according to national regulations, are not subject to notification / authorization or for which reports are missing / incomplete for the reference period. To avoid overlapping, the information is checked, when is possible, at the level of resident debtor– 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. Also, trade credit and advances related to international trade in services are estimated for 4 main types of services, where the necessary information is available.

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 by residents from non-residents and for trade credits and advances provided 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 *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, based on individual data from the Balance sheet and profit and loss statements 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 statement on the foreign exchange open position of the NBM is the basic source for the calculation of the *reserve assets* flows, which are estimated using the official daily cross-rates of original currencies against the US dollar, calculated on daily official exchange rate set by the NBM basis 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 data on flows recorded in financial account of the balance of payments. BOP flows along with ***Other changes in financial assets and liabilities account*** and the IIP position of assets and liabilities at the beginning and the end of the reference period are reflected in the integrated IIP. Also, IIP indicators are fully reconciled with the external debt of the Republic of Moldova.

The international investment position is a statistical statement that shows at a fixed reference point in time (in the case of the Republic of Moldova - *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. Financial liabilities of residents of an economy to non-residents.

The difference between financial assets and liabilities constitutes the net IIP and represents a net claim (if it's net creditor, financial assets exceeding liabilities) or a net liability (if it's net debtor, liabilities exceeding financial assets) to the rest of the world. The IIP of the Republic of Moldova is constantly net debtor and represents a net liability towards 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 is equal to the sum of the following components: the position at the end of the previous period, net flow resulting from the financial account of the balance of payments and the flow from ***Other changes in financial assets and liabilities account***.

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 price changes,
- Revaluations due to exchange rate changes.

Positions reflected in IIP are generally valued at market prices, similarly to the approach used for BOP transactions evaluation. 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 the currency used for international accounts compilation, in the case of the Republic of Moldova this is the US dollar.

Other changes in the volume of financial assets and liabilities are changes in the value of these financial 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 that owns them, as a result of conversion / disposal of financial assets / liabilities.

The IIP indicators for analytical purposes are presented in various presentations 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 on net basis (assets minus liabilities),
- iv. by institutional sectors and functional categories, where the institutional sector is that of the resident (the resident owner's or creditor's sector in the case of assets and the resident issuers or debtors' sector in the case of liabilities), for assets and liabilities separately and on net basis (assets minus liabilities),
- v. by original maturity (long-term and short-term), in distribution by functional categories and financial instruments, for assets and liabilities separately and on a net basis.
- vi. by original currency of the financial instruments for assets and liabilities briefly emphasising the Moldovan leu and other and other 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 the end of reference period (e.g. quarter), the *IIP integrated statement* (Table 3) supplementary presents the data on the position at the beginning and at the end of the period, net flows of the balance of payments and the *Other changes in financial assets and liabilities account*.

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 3. Integrated International investment position statement – main aggregates

	Position at the beginning of the period	Financial account transactions	Other changes in assets and liabilities account			Position at the end of period
			Changes in position reflecting:			
			Evaluations		other changes in volume	
other price changes	exchange rate changes					
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 of the Republic of Moldova 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 types of liabilities:

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

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 Moldova¹, purchased by non-residents.

Debt securities are divided by resident 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 residents of the Republic of Moldova and held by non-residents, plus outstanding interest according to the payment schedule by the end of the reported period.

Loans comprise:

- loans of the central bank – IMF loans contracted 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) except for 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.

- private loans on direct investment (intercompany lending)- external loans contracted from non-resident affiliates and used by resident entities.

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. Recipient countries of SDR allocations pay an interest on them and will need to return them to the IMF under certain circumstances, such as termination of country 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.

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 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, except direct investment > intercompany lending is disaggregated by *institutional sectors*, following the BOP and IIP classification: general government, central bank, deposit-taking corporations except the central bank, other sectors (other financial corporations, non-financial corporations, households and NPISHs).

External liabilities are reflected to the direct borrower's sector. According to the standard structure of gross external debt, intracompany lending is not presented by sector, similar to respective IIP positions and BOP flows.

The integrated ED presentation is also compiled, similar to that of the IIP, with highlighted changes that conditioned the position at the end of the period (Table 3).

Table 4. Gross external debt: reconciliation of positions with flows

	Position at the beginning of the period	Changes reflecting:				Position at the end of period
		Inflows	Actual principal payments/outflows	Other changes	Exchange rate fluctuation	
Public / private external debt						
General Government / Central bank / Deposit-taking corporations excluding central bank / Other sectors						
Short-term Currency and deposits Debt instruments Loans Trade credits and advances Other debt liabilities						
Long-term SDR allocations Currency and deposits Debt instruments Loans Trade credits and advances Other debt liabilities						
Direct investment: intercompany lending						
Debt liabilities of direct investment enterprises to direct investors Debt liabilities of direct investors to direct investment enterprises Debt liabilities between fellow enterprises						

To inflows are reflected credit transactions, to actual payments / outflows - debit transactions from BOP financial account, to exchange rate fluctuations and to other changes - similar valuations reflected in the IIP, as well as other changes in volume.

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 property type (**public** and **private**) and by main creditors.

Also, are developed indicators on external debt by remaining maturity, which are of a high analytical importance from the perspective of analysing and planning of potential short-term payments.

The **external public debt** includes the governmental external debt, the external debt of ATU, the external debt of the NBM, external debt of public corporations, and, additionally, government securities of the Republic of Moldova held by non-residents.

- The **external governmental debt** represents the total active external liabilities, servicing and repayment of which is done 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 debt* includes the external liabilities contracted by the government on behalf of the Republic of Moldova through the Ministry of Finance.

- *Publicly guaranteed assumed external debt* includes external liabilities contracted by the private sector, but servicing by the government, based on the state granted guarantee execution as a result of the guaranteed debtor's failure to honour its contractual obligations.
- The *external debt of ATU* includes external liabilities in the form of loans, 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 external liabilities in the form of loans contracted and used by business entities where the government holds more than 50% of the equity capital, as well as corresponding accrued interest.

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.

The sources of information for compiling the external debt are identical to those used to the data for the BOP financial account and IIP.

1.5. QUARTERLY EXTERNAL DEBT STATISTICS

In order to monitor risks and analyse the sustainability of external debt, at the World Bank (WB) request, a set of additional indicators is quarterly reported and published in the common databases of the WB and the IMF - Quarterly External Debt Statistics (QEDS). These statistics are consistent with the concepts, definitions and classifications used in the Gross External Debt presentations, but with an expanded coverage. Country participation in the QEDS database is voluntary, and the Republic of Moldova reports this statistics starting with 2007.

QEDS statistics is a set of indicators presented in 4 main tables, compiled and disseminated quarterly by the NBM:

- T.1. *Gross external debt position by sector* (,
- 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 that are not part of the standard structure of gross ED. are produced in tables T.2, T.3 and T.4.

Data presented in T.3 and T.4 are elaborated according to the remaining maturity² principle.

Seven supplementary tables with complementary details are also recommended to be compiled, 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, the BPM6 manual and specific recommendations on QEDS.

Data sources used for the QEDS compilation are similar to those used for the external debt compilation.

² The EDS Guide (paragraph 6.7) 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.

1.6. COORDINATED DIRECT INVESTMENT SURVEY

The Coordinated Direct Investment Survey (CDIS) is a separate annual statistics set on direct investment positions, providing data on their geographical distribution and economic activity. The compilation of the CDIS data is realized based on the methodological recommendations of the IMF's CDIS Guide and is a mandatory statistical requirement of the SDDS Plus of the IMF. They are voluntarily compiled by the Republic of Moldova starting with 2010 (data for 2009), as the Republic of Moldova being selected as a pilot country in the CDIS launching and development process. The Republic of Moldova is subscribed to the SDDS starting with 2006.

CDIS data are compiled according to the directional principle (inward / outward), unlike the direct investment statistics from the international investment position, which are presented according to the assets / liabilities principle, which is the main reason for the difference in indicators. For both equity and debt investment (loans, trade credits and other liabilities) the principle of 'own funds at book value' on a net basis is used.

Annual data reflect the situation at the end of the calendar year and are presented as total and separately for equity and debt instruments. The geographical distribution of FDI is shown according to the immediate investor's country.

In addition to the presentations requested by the IMF, a mixed presentation by economic activities and geographical regions (EU, CIS, and Rest of the World) is published on the NBM website.

Currently, only inward CDIS data are compiled, while outward CDIS data values are much more modest, but the possibility of compiling outward CDIS indicators is being examined.

1.7. INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY

The International Reserves and Foreign Currency Liquidity Statistics (IRFCLS) is another set of separate statistics reflecting positions, compiled according to the standards recommended by the IMF in “International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template” (IMF, 2013) and the BPM6.

The structure of International Reserves and Foreign Currency Liquidity is based on two related concepts: (1) International Reserves (Reserve Assets) and (2) Foreign Currency Liquidity. According to the BPM6, “Reserves assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in the exchange markets to affect the currency exchange rate, and for other related purposes”. Foreign currency liquidity is a broader concept than that of international reserves. Two dimensions are presented in the International Reserves and Foreign Currency Liquidity Report:

1. foreign currency resources (including both official reserve assets and other foreign currency assets) at the disposal of the authorities that are readily available to meet the foreign currency demand; and,
2. predetermined and contingent demands on foreign currency resources resulting from short-term foreign currency liabilities and off-balance sheet activities of the authorities.

The International Reserves and Foreign Currency Liquidity Report is divided into 4 sections:

- Section I. Official reserve assets and other foreign currency assets;
- Section II. Predetermined short-term net drains of foreign currency assets;
- Section III. Contingent short-term net drains of foreign currency assets;
- Section IV. Memo items, which also reflect the currency structure of the reserve assets, in particular each of the SDR basket currencies and other currencies, where appropriate with individual currency breakdown.

IRFCLS statistics are compiled by the NBM in cooperation / with the contribution of the Ministry of Finance.