

BEA BRIEFING

A Guide to the U.S. International Transactions Accounts and the U.S. International Investment Position Accounts

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HOW fast has the trade deficit risen or fallen? How does the current-account deficit affect gross domestic product (GDP) and income? How does recession abroad affect U.S. goods exports and imports? How has uncertainty in the global financial markets affected sales of Treasury bonds by foreign investors? Has the value of assets owned abroad by U.S. companies changed? Such questions are as topical as ever, given the globalizing economy and recent economic uncertainty. The international transactions accounts (ITAs) and the international investment position (IIP) accounts—two marquee international economic accounts from the Bureau of Economic Analysis (BEA)—have long shed light on such questions and remain important sources of statistics for economists and policymakers.

Just as businesses have income statements that measure transactions and balance sheets that measure outstanding assets and liabilities, the international economic accounts have similar statements. The ITAs measure transactions vis-à-vis foreigners, that is, flows of goods, services, income, and financial assets between countries over a period of time. See the box “Fundamental Concepts of the ITAs.” The IIP accounts measure amounts outstanding of assets and liabilities vis-à-vis foreigners, that is, the value of U.S.-owned assets abroad and the value of foreign-owned assets in the United States at a given point in time; the difference between the two is the net international investment position. Though the accounting requirements for the preparation of the international economic accounts are not identical to those for the preparation of corporate financial accounts, the concepts are similar, and in the final analysis, the economic accounts are based largely on the financial accounts.

This article is intended as an introduction to both the ITAs and IIP accounts.

- The first section discusses the ITAs.
- The second section discusses the IIP accounts.

- Three appendices are included. The first presents international transactions as they appear in the NIPAs. The second discusses the relationship between the ITAs and the national income and product accounts (NIPAs), also known as the GDP accounts. The third presents foreign transactions as they appear in the seven-sector summary accounts of the NIPAs.

International Transactions Accounts

The international transactions accounts (ITAs) have three principal components: (1) the current account, (2) the capital account, and (3) the financial account.

Current account

The current account measures transactions in goods, services, income, and net unilateral current transfers between U.S. residents and nonresidents that relate to current production and to the incomes generated from productive activities (table 1). These are the transactions most closely related to current production, consumption, and income. All are included as part of the foreign sector in the NIPAs, though as explained in appendix I, their arrangement in the NIPA framework is somewhat different than that of the ITAs.

This account in many ways is similar to an income statement for the entire economy. For example, a business might generate receipts from a sale of a good or service (akin to an export); it might generate income from dividends or interest (akin to income receipts); or it might make or receive gifts and grants (akin to net unilateral current transfers). This aggregation over the entire economy provides a useful glimpse of current international economic transactions over a period of time.

Goods refers to tangible commodities, which may be in the form of raw materials, intermediate products, or final products.

Services refers to the economic output that is intangible in nature, that cannot be stored, and that is generally

Table 1. U.S. International Transactions

[Millions of dollars]

Line	(Credits +; debits -)	2006	2007	2008
Current account				
1	Exports of goods and services and income receipts	2,133,905	2,462,099	2,591,233
2	Exports of goods and services	1,451,684	1,643,168	1,826,596
3	Goods, balance of payments basis	1,015,812	1,138,384	1,276,994
4	Services	435,873	504,784	549,602
5	Transfers under U.S. military agency sales contracts	23,913	25,436	22,571
6	Travel	85,789	97,050	110,090
7	Passenger fares	22,036	25,636	31,823
8	Other transportation	46,225	51,550	58,945
9	Royalties and license fees	70,727	83,824	91,599
10	Other private services	186,028	220,077	233,529
11	U.S. government miscellaneous services	1,155	1,212	1,245
12	Income receipts	682,221	818,931	764,637
13	Income receipts on U.S.-owned assets abroad	679,338	815,960	761,593
14	Direct investment receipts	324,816	363,247	370,747
15	Other private receipts	352,122	450,480	385,940
16	U.S. government receipts	2,400	2,233	4,906
17	Compensation of employees	2,883	2,971	3,044
18	Imports of goods and services and income payments	-2,846,179	-3,072,675	-3,168,938
19	Imports of goods and services	-2,212,043	-2,344,590	-2,522,532
20	Goods, balance of payments basis	-1,863,072	-1,969,375	-2,117,245
21	Services	-348,972	-375,215	-405,287
22	Direct defense expenditures	-31,032	-32,820	-36,452
23	Travel	-72,104	-76,354	-79,743
24	Passenger fares	-27,501	-28,437	-32,597
25	Other transportation	-65,318	-67,100	-72,143
26	Royalties and license fees	-23,518	-24,656	-26,616
27	Other private services	-125,478	-141,664	-153,267
28	U.S. government miscellaneous services	-4,021	-4,184	-4,469
29	Income payments	-634,136	-728,085	-646,406
30	Income payments on foreign-owned assets in the United States	-624,646	-718,019	-636,043
31	Direct investment payments	-150,770	-126,532	-120,862
32	Other private payments	-338,897	-427,159	-349,871
33	U.S. government payments	-134,979	-164,328	-165,310
34	Compensation of employees	-9,490	-10,066	-10,364
35	Unilateral current transfers, net	-91,273	-115,996	-128,363
36	U.S. government grants	-27,733	-34,437	-36,003
37	U.S. government pensions and other transfers	-6,508	-7,323	-8,390
38	Private remittances and other transfers	-57,032	-74,236	-83,970
Capital account				
39	Capital account transactions, net	-3,906	-1,895	953
Financial account				
40	U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-))	-1,285,729	-1,472,126	-106
41	U.S. official reserve assets	2,374	-122	-4,848
42	Gold	0	0	0
43	Special drawing rights	-223	-154	-106
44	Reserve position in the International Monetary Fund	3,331	1,021	-3,473
45	Foreign currencies	-734	-989	-1,269
46	U.S. government assets, other than official reserve assets	5,346	-22,273	-529,615
47	U.S. credits and other long-term assets	-2,992	-2,475	-2,202
48	Repayments on U.S. credits and other long-term assets	8,329	4,104	2,354
49	U.S. foreign currency holdings and U.S. short-term assets	9	-23,902	-529,766
50	U.S. private assets	-1,293,449	-1,449,731	534,357
51	Direct investment	-244,922	-398,597	-332,012
52	Foreign securities	-365,129	-366,524	60,761
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	-181,299	-40,517	372,229
54	U.S. claims reported by U.S. banks, not included elsewhere	-502,099	-644,093	433,379
55	Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+))	2,065,169	2,129,460	534,071
56	Foreign official assets in the United States	487,939	480,949	487,021
57	U.S. government securities	428,401	269,897	543,498
58	U.S. Treasury securities	208,564	98,432	477,652
59	Other	219,837	171,465	65,846
60	Other U.S. government liabilities	2,816	5,342	8,626
61	U.S. liabilities reported by U.S. banks, not included elsewhere	22,365	109,019	-153,443
62	Other foreign official assets	34,357	96,691	88,340
63	Other foreign assets in the United States	1,577,230	1,648,511	47,050
64	Direct investment	243,151	275,758	319,737
65	U.S. Treasury securities	-58,229	66,807	196,619
66	U.S. securities other than U.S. Treasury securities	683,245	605,652	-126,737
67	U.S. currency	2,227	-10,675	29,187
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	244,793	201,681	-45,167
69	U.S. liabilities reported by U.S. banks, not included elsewhere	462,043	509,288	-326,589
70	Financial derivatives, net	29,710	6,222	-28,905
71	Statistical discrepancy (sum of above items with sign reversed)	-1,698	64,912	200,055
Memoranda:				
72	Balance on goods (lines 3 and 20)	-847,260	-830,992	-840,252
73	Balance on services (lines 4 and 21)	86,901	129,569	144,316
74	Balance on goods and services (lines 2 and 19)	-760,359	-701,422	-695,936
75	Balance on income (lines 12 and 29)	48,085	90,845	118,231
76	Unilateral current transfers, net (line 35)	-91,273	-115,996	-128,363
77	Balance on current account (lines 1, 18, and 35 or lines 74, 75, and 76)	-803,547	-726,573	-706,068

NOTE. Credits, +: Exports of goods and services and income receipts; unilateral current transfers to the United States; capital account transactions receipts; financial inflows—increase in foreign-owned assets (U.S. liabilities) or decrease in U.S.-owned assets (U.S. claims). Debits, -: Imports of goods and services and income

payments; unilateral current transfers to foreigners; capital account transactions payments; financial outflows—decrease in foreign-owned assets (U.S. liabilities) or increase in U.S.-owned assets (U.S. claims).

produced and consumed at the same time. In a few cases, the distinction between goods and services is blurred, usually because they are commingled in the source data.

Income refers to receipts and payments on international investments, such as dividends and interest from holdings of financial assets and dividends, interest, and reinvested earnings of multinational corporations—all of which are considered returns for the use of capital. Returns to labor in the form of compensation (wages and salaries) are also included.

Unilateral current transfers are transfers of goods, services, or financial assets without a *quid pro quo*; the country receiving the transfer neither provides nor promises to provide anything of economic value in return. A distinction is made between government transfers, such as foreign assistance to developing countries, and private transfers, such as remittances by philanthropic organizations. Transfers by U.S. residents are netted against transfers from nonresidents in the accounts.

In the current account, exports of goods and services and receipts of income are shown as positive values, and imports of goods and services and payments of income are shown as negative values. Net unilateral current transfers to foreigners are shown as negative values.

Goods

Goods exports, excluding military goods exports, measure the value of goods sold or transferred by U.S. residents to residents of foreign countries. In principle, a transaction occurs when a change in legal ownership occurs. However, in most cases, the shipment of goods out of the United States (defined as the U.S. customs territory) is taken as presumptive evidence that a change in ownership has occurred, so that physical possession indicates actual ownership. If there has been a sale, the value of the export is the market value at the port of exportation. If there has been a gift (such as a shipment of wheat by the U.S. government for famine relief in Africa), the export is also valued at the market value at the port of exportation. The value includes inland freight, insurance, and other charges incurred in placing the goods alongside the carrier.

Goods imports, excluding military goods imports, measure goods that are purchased or transferred from residents of foreign countries to U.S. residents. A change in ownership is presumed to have occurred when the goods cross the U.S. customs boundary. Imports are valued at the market value at the foreign port of exportation (generally equivalent to the U.S. customs' appraised value) and in the case of a gift, also at

the market value at the foreign port of exportation. By convention, freight charges for transportation of goods beyond the foreign port of exportation are assumed to be paid by the importer; these charges are included as imports in the "other" transportation services account.

Goods export and import data are collected by the U.S. Customs and Border Protection, Department of Homeland Security, and tabulated by the U.S. Census Bureau. The Census Bureau tabulations organize exports and imports according to the Harmonized System of commodity classification, which is an internationally accepted standard for the commodity classification of internationally traded goods. The Harmonized System consists of 9,000 export commodity categories and 18,000 import commodity categories.

BEA makes small adjustments to the Census-basis data to adjust for (1) incomplete coverage of the data (such as for locomotives and rail cars and for inland freight in Canada and Mexico), (2) duplicate coverage of transactions covered more completely elsewhere in the ITAs (such as for military goods and services and for repairs to major equipment), and (3) valuation (such as for the revaluation of imports of computer software to market value). BEA then converts the Census-basis data to BEA's end-use commodity classification system, which consists of 140 export categories and 142 import categories. BEA classifies goods by their end uses in order to relate changes in trade more easily to changes in production, consumption, and income. Examples of BEA's broad end-use commodity categories are foods, feeds, and beverages; capital goods; industrial supplies and materials; automotive products; and consumer goods. In contrast, the Harmonized System is based on the physical nature of commodities and their stage of processing.

Goods exports and goods imports measure the sale, purchase, or transfer of goods rather than their production. Consequently, the accounts include entries for products that were generated in previous periods (second-hand goods and inventories) and output of other countries (reexports).¹ Likewise, the international accounts do not show how enterprises ultimately use goods that they have acquired, such as for intermediate consumption, inventories, or gross fixed capital formation.

Monthly data, seasonally adjusted by commodity, are summed to quarters, and the quarterly series are summed to total exports and imports. Approximately 90 percent of the value of goods exports and 95 percent

1. Reexports are commodities of foreign origin that are in substantially the same condition when exported as they were when imported into the United States.

Fundamental Concepts of the ITAs

The international transactions accounts (ITAs) record transactions between U.S. and foreign residents over a period of time, usually a quarter.

For purposes of the ITAs, the **United States** is defined by the U.S. customs territory, which consists of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and other territories and commonwealths, and U.S. foreign trade zones. (The national income and product accounts use a slightly different definition of the United States which excludes the territories and possessions.) The territories are included because they have a closer degree of economic association with the United States than with any other country. U.S. government military, diplomatic, consular, and other nonmilitary installations abroad are considered to be within the U.S. economy, and their operations are regarded as an extension of U.S. government domestic operations.

A **U.S. resident** is defined to include (1) **individuals** residing permanently in the United States, (2) **business enterprises and nonprofit organizations** established under U.S. laws, including corporations, partnerships, and proprietorships; and (3) **U.S. federal, state, and local governments**, together with their subdivisions.

Individuals who reside or expect to reside in the United States for 1 year or more are considered U.S. residents. An exception is made for U.S. students who study abroad and foreign students who study in the United States; students retain the residency of their home country regardless of their length of stay. U.S. government employees stationed abroad (and their families) such as diplomats, consular officials, and members of the armed forces are also considered as U.S. residents, regardless of their length of stay abroad.

Affiliates of multinational corporations are considered as residents of the country in which they are located, not as residents of the country of the parent; thus, U.S. affiliates of foreign corporations are considered U.S. residents, and foreign affiliates of U.S. corporations are considered foreign residents. Economic activities of production and consumption occur predominately in the countries in which the affiliates are located.

Federal, state, and local governments and their agencies and subdivisions are considered as residents of their home country. Thus, U.S. government installations abroad are considered residents of the United States, and foreign government installations located in the United States are considered as residents of their home country.

International organizations such as the United Nations, the International Monetary Fund, and the International Bank for Reconstruction and Development are considered residents of an international area beyond national boundaries, rather than residents of

the country in which they are located or in which they operate.

The ITAs apply a **double-entry system of accounting** in recording transactions: for any entry there must be counterpart entry. Exports of goods and services, income receipts, unilateral transfers to the United States, capital account receipts, decreases in U.S. assets abroad, and increases in foreign-owned liabilities in the United States are shown as **credits** (with a positive sign). Imports of goods and services, income payments, unilateral transfers from the United States, capital account payments, increases in U.S. assets abroad, and decreases in foreign-owned liabilities in the United States are shown as **debits** (with a negative sign). For each credit entry there must be an equal and offsetting debit entry, and vice versa. For example, if a foreign resident purchased a U.S. good with a check drawn against its U.S. bank account, the offset to the credit entry for U.S. goods exports would be a debit entry for foreign-owned bank-reported liabilities, reflecting the reduction in foreign-owned assets in the United States.

Whenever possible, transactions are valued at **market prices**. Transactions are considered to occur when **changes in ownership** take place. Transactions are grouped into three accounts. The **current account** includes transactions in goods, services, income, and unilateral current transfers (gifts). The **capital account** includes capital transfers, such as debt forgiveness. The **financial account** records changes in U.S.-owned assets abroad and foreign-owned assets in the United States.

The income measures in the ITAs exclude holding gains and losses that arise from changes in prices of assets because these are **capital gains and losses** rather than returns to property or labor. Capital gains and losses are, however, included in the international investment position accounts.

Transactions in the current account of the ITAs are recorded on a **gross basis** in order to present a picture of the two-way flow of trade. Transactions in the financial account of the ITAs, however, are presented on a **net basis** for U.S. assets abroad and on a **net basis** for foreign assets in the United States. For example, if the United States had both exports and imports of automobiles in a given period, the exports and the imports would be separately recorded. If, in contrast, U.S. residents both sold and purchased foreign bonds in a given period, only the net sales or purchases would be recorded.

Transactions in **produced assets** are covered in the goods, services, income, and current unilateral transfers accounts in the current account, in **nonproduced nonfinancial assets** in the capital account, and in **financial assets and financial liabilities** in the financial account.

of the value of goods imports exhibit seasonal patterns.

Goods exports and goods imports are available in Census Bureau tabulations for all 240 countries in the world, but statistics for only about 60 of the largest countries and areas are included in the quarterly presentation of the ITAs.

Services

Services exports measure sales and transfers of services by U.S. residents to residents of foreign countries, and services imports measure purchases of services by U.S. residents from residents of foreign countries and transfers from foreign residents to U.S. residents.

Services exports and imports are each classified into seven broad types: travel, passenger fares, "other" transportation services, royalties and license fees, "other" private services, U.S. government miscellaneous (nonmilitary) services, transfers under U.S. government military sales contracts (exports), and direct defense expenditures (imports).

Sales and purchases are classified by type of service activity (product) except for travel and government services, which are classified on a transactor basis. Services are recorded at the time the service is performed or provided. If the service is performed over a period of time, then the recording of the transaction is continuous over the period, in agreement with accrual principles of accounting.

Travel. The travel accounts cover purchases of goods and services by U.S. travelers abroad and by foreign visitors to the United States for food, lodging, recreation, gifts, and other small expenses related to a foreign visit. A traveler is defined as a person who stays for a period of less than 1 year in a country of which the person is not a resident. (Exceptions are made for students, employees of governments, and military personnel, all of whom retain the residency of their country of origin regardless of how long they stay abroad.) Estimates are based primarily on surveys by the Office of Travel and Tourism Industries within the International Trade Administration of the Department of Commerce and data from the Department of Homeland Security. Transactions with Canada and Mexico are based on surveys conducted by statistical authorities in those countries.

Passenger fares. The passenger fare accounts cover fares received by U.S. air carriers from foreign residents for travel between the United States and foreign countries and between two foreign points, and fares paid by U.S. residents to foreign carriers for travel between the United States and foreign countries. Estimates are based primarily on surveys by the Office of Travel and

Tourism Industries and data from the Department of Homeland Security. Transactions with Canada and Mexico are based on surveys conducted by statistical authorities in those countries.

"Other" transportation. The "other" transportation accounts cover U.S. international transactions arising from the transportation of goods by ocean, air, waterway, and rail carriers to and from the United States. Pipeline transportation and satellite launch services are also covered. The accounts cover freight charges, operating expenses that transportation companies incur in foreign ports, and payments for vessel charters and for aircraft and freight car rentals. For most transactions, the residency of the transportation operator determines the geographic attribution of receipts and payments. Estimates are based for the most part on BEA's transportation surveys and information from the Census Bureau.

Royalties and license fees. The royalties and license fees accounts cover U.S. international transactions involving intangible assets and property rights, such as the use of patents, techniques, processes, formulas, designs, know-how, trademarks, copyrights, franchises, and manufacturing rights. The term "royalties" generally refers to payments for the utilization of copyrights or trademarks, and the term "license fees" generally refers to payments for the use of patents or industrial processes. Estimates are based on BEA's quarterly surveys of services.

"Other" private services. The "other" private services accounts include several categories. Nearly half of the exports and imports are in the category *business, professional, and technical services*. Major services included in this category are computer and information services; management and consulting services; research and development and testing services; operational leasing services; installation, maintenance, and repair of equipment; and legal services. Another major category is *financial services*, which includes brokerage, underwriting, and private placement services; financial management, financial advisory, and custody services; credit card and other credit related services; and securities lending, electronic funds transfer, and other financial services. Other major services categories include *insurance services* (mainly reinsurance) and *telecommunications services*. Estimates for all these business services are based on BEA's quarterly surveys of services. Another major category is *education services*; BEA's estimates are based on college, university, and government data.

U.S. government miscellaneous (nonmilitary) services. Sales of services by U.S. government (nonmilitary)

agencies primarily include receipts by the U.S. Postal Service and receipts from sales and from the value of services rendered under foreign assistance programs. Purchases of services by U.S. government nonmilitary agencies primarily include purchases abroad by the Department of State and the Agency for International Development. Estimates are based on reports submitted by these and other U.S. government operating agencies.

Transfers under U.S. military agency sales contracts (exports). This account measures transfers of goods and services by U.S. government military agencies to foreign governments under foreign military sales (FMS) program contracts, some non-FMS transfers, and other transactions involving the provision of military goods or services. The FMS program is authorized under the provisions of the Arms Export Control Act of 1976. Deliveries may be financed by cash, grants, or credits under various foreign assistance programs. These transfers include both goods and services, which often cannot be separately identified. These transactions exclude commercial transactions between U.S. private firms, on one hand, and foreign firms and governments, on the other, that involve military types of goods or services without military agency participation. Also included are transfers of goods and services under U.S. military grant programs, such as transfers to train and equip security forces abroad and to support reconstruction and other humanitarian relief efforts performed by the Department of Defense. Thus, this account includes all military exports, whether by sales or by gift, in a single line. Estimates are based on reports by the Department of Defense.

Direct defense expenditures (imports). This account measures direct defense expenditures abroad by U.S. government military agencies. Expenditures abroad include both goods and services, which often cannot be separately identified. Direct defense expenditures are generally recorded on a cash disbursement basis. Payments are presumed to occur within 30 days after the receipt of the goods and services. Estimates are based on reports by the Department of Defense.

Income

Income (the return to property and labor) consists of two components: (1) income receipts on U.S.-owned assets abroad and income payments on foreign-owned assets in the United States (the return to property) and (2) compensation receipts and compensation payments of temporary employees (the return to labor).

Income earned on U.S.-owned assets abroad and income paid on foreign-owned assets in the United

States, which account for more than 99 percent of both total income receipts and payments, is divided into receipts and payments on direct investment, on other private investment, and on U.S. government investment.

Direct investment income. Income on U.S. direct investment abroad and foreign direct investment in the United States consists of earnings and interest received from, and paid to, businesses where there is 10 percent or more ownership by the parent of the voting shares of the affiliate. The account measures the return on U.S. direct investment abroad and the return on foreign direct investment in the United States. Earnings are distributed to the shareholders as dividends or re-invested within the firm. Interest must be paid, or credited, to the account of the creditor. Direct investment income (and the direct investment position estimates in the IIP accounts) is measured at current cost (or replacement cost) rather than at historical cost to ensure that assets are valued at current-period prices and to ensure that reported measures of income earned in a given period are properly aligned with charges against income in the same period. Estimates are based on BEA's surveys of direct investment.

"Other" private investment income. Income received by U.S. residents on other investment abroad consists of dividends and interest received on U.S. holdings of foreign equities and foreign corporate bonds, and of interest received on U.S. bank and U.S. nonbank claims on (loans to or deposits with) foreigners. Income paid by U.S. residents on other investment consists of dividends and of interest paid on foreign holdings of U.S. equities and U.S. corporate bonds and of interest paid on U.S. bank and U.S. nonbank liabilities to (borrowing from or deposits from) foreigners. Interest and dividends received and paid on securities occur when there is no effective control over management activities, as indicated by a less than 10 percent ownership of the voting shares of a company. Estimates are prepared by BEA from market data and Treasury Department monthly, annual, and benchmark surveys of international financial transactions.

U.S. government income. Income received by the U.S. government consists of interest earned by the U.S. government on its claims on foreigners (loans and deposits), and income paid by the U.S. government consists of interest paid on U.S. Treasury securities, U.S. agency securities, and other U.S. government liabilities. Estimates are prepared by BEA from market data and Treasury Department monthly, annual, and benchmark surveys of international financial transactions.

Compensation of employees. Compensation of

employees occurs when U.S. residents are employed while temporarily living or working in a host country or when foreign residents are employed while temporarily living or working in the United States. A temporary worker is defined as a person who stays for a period of less than 1 year in a country of which the person is not a resident. For the United States, this type of international employment is small, and the related compensation accounts for only a very small fraction of total U.S. income receipts and income payments. Estimates are prepared by BEA based mostly on data from foreign statistical authorities and demographic data from the Census Bureau, the Agriculture Department, and the Labor Department.

Unilateral current transfers, net

The net unilateral current transfers account measures transactions in which goods, services, or financial assets are transferred between U.S. residents and residents of other countries without something of economic value being received or provided in return. There are three major components: U.S. government grants, U.S. government pensions and other transfers, and private remittances and other transfers. Estimates of most of the components are based on reports to BEA by U.S. government agencies and nonprofit organizations. Estimates of the personal remittances sub-component of private remittances are modeled based on demographic and economic data from the Census Bureau.

U.S. government grants. U.S. government grants measures the utilization of U.S. government financing to transfer real resources or financial assets to foreigners under programs enacted by the U.S. Congress for the provision of nonmilitary and military foreign assistance for which no repayment is expected. Utilized assistance represents the goods delivered or shipped, services rendered, or cash disbursed by the U.S. government to, or for the account of, a foreign government or other foreign entity. Grants are measured on a net basis.

U.S. government pensions and other transfers. U.S. government pensions and other transfers primarily measures payments for social security and other social insurance benefits, retirement and compensation programs for former U.S. government civilian and military personnel and veterans residing abroad, and damage claims paid by the U.S. armed services in countries where they have installations.

Private remittances and other transfers. Private remittances and other transfers measures net private unilateral transfers of goods, services, and cash and

other financial assets between U.S. and foreign residents. Most of these transfers are institutional remittances by U.S. religious, charitable, educational, scientific, and similar nonprofit organizations, or personal remittances by the foreign-born population in the United States to families in their home country. Also included is an accounting entry for the insurance offset resulting from the handling of certain losses in the insurance estimates included in the services accounts, as well as withholding taxes on services transactions, banking and securities transactions, and direct investment transactions.

Capital account

Capital-account transactions result from changes in the stock of nonproduced nonfinancial assets of an economy and from changes in other capital transfers. Transactions in the components of the capital account do not affect measures of production, income, and savings of an economy. In contrast, transactions in the components of the current account do affect measures of production, income, and savings of an economy.

The capital account includes two major components. The first component includes acquisitions and disposals of *nonproduced nonfinancial assets*. Examples include purchases and sales of rights related to tangible assets—such as mineral rights, electromagnetic spectrum, and offshore drilling rights—and purchases and sales of intangible assets, such as copyrights and trademarks. At present, no source data are available to separately identify and adequately measure most capital transactions in tangible and intangible property. In some cases, transactions are covered but are commingled with transactions recorded elsewhere in the accounts.

The second component is *capital transfers*, which includes transfers for insurance payments related to catastrophic losses, transfers for debt forgiveness, and certain transactions related to the Panama Canal. Insurance payments related to catastrophic losses are currently the largest type of capital transfer for which source data are available; these transfers are separated from other insurance transactions to ensure that catastrophic-related losses do not affect certain measures of income and savings in GDP.² Before the introduction

2. Eugene P. Seskin and Shelly Smith, "Preview of the 2009 Comprehensive Revision of the NIPAs: Changes in Definitions and Classifications," *SURVEY OF CURRENT BUSINESS* 89 (March 2009): 10–27. For more information on earlier changes, see Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications," *SURVEY* 83 (June 2003): 19–23; Baoline Chen and Dennis J. Fixler, "Measuring the Services of Property-Casualty Insurance in the NIPAs," *SURVEY* 83 (October 2003): 10–26.

of this treatment in 2009, these catastrophic losses were reported as a component of current transfers where they did affect income and savings measures in the GDP. Debt forgiveness, for which source data are available only for forgiveness of debt owed to the U.S. government, is a second type of capital transfer; it was previously included as a component of unilateral current transfers, but it was moved to the capital account to avoid distorting measures of income and savings. Capital transfers also include the December 1999 transfer to the Republic of Panama of the U.S. government's assets in the Panama Canal Commission.

A third component of capital transfers is migrants' transfers, which is the value of belongings and other assets and liabilities that immigrants and emigrants own when they enter or leave the United States. Estimates of these transactions are currently included in the accounts but may be removed in the future because under current international standards, they do not meet the requirements of bona fide transactions between residents and nonresidents.

A fourth component of capital transfers is taxes on capital transfers, that is, taxes levied at irregular and infrequent intervals on the value of assets transferred to nonresidents. Estate, inheritance, gift taxes, and other nonrecurrent taxes on property are classified as capital transfers. Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers. No data are currently available to estimate taxes on capital transfers.

In an accounting sense, the combined balance of the current and capital accounts is equivalent to the balance of all transactions in the financial account, although the two balances have the opposite sign. Although equivalent in principle, the two balances differ in practice by the amount of the statistical discrepancy in the ITAs. The combined current and capital accounts after the definition adjustments and statistical adjustments outlined in appendix II are also equal to "net lending or net borrowing" in the national income and product accounts.

Financial account

The financial account and its components measure transactions in financial assets and liabilities between residents and nonresidents (table 1). None of these transactions are included in the NIPAs. Financial assets may be exchanged for goods, services, and income flows, for other financial assets, or they may represent the offsets to unilateral transfers. Financial assets encompass international claims payable in money, such

as loans, bank deposits, drafts, acceptances, notes, government and private debt and equity securities, intercompany accounts, and financial derivatives. In the case of direct investment, physical or real assets held for the production of income are considered as if they were financial claims on the country in which the asset is located.

The major organizing principle in classifying the financial account is the distinction between U.S.-owned assets abroad and foreign-owned assets in the United States. The sector identification for the accounts is that of the domestic creditor for assets and the domestic debtor for liabilities.

The functional breakdown for U.S.-owned assets abroad distinguishes among U.S. official reserve assets, U.S. government assets other than official reserve assets, and private U.S. assets. Private U.S. assets are classified into direct investment, foreign securities, nonbank-reported claims, and bank-reported claims.

The functional breakdown for foreign-owned assets in the United States distinguishes between assets held by foreign official agencies and those held by other foreigners. Foreign official agencies are defined as treasuries and ministries of finance; central banks; stabilization funds; fiscal agents of national governments that have as an important part of their functions activities similar to those of a treasury, central bank, or stabilization fund; diplomatic and consular establishments; and other agencies of national governments, including sovereign wealth funds.

Foreign official assets are classified into U.S. Treasury securities, other U.S. government securities, other U.S. government liabilities, bank-reported liabilities, and other foreign official assets. Other foreign assets are classified into direct investment, U.S. Treasury securities, U.S. securities other than U.S. Treasury securities, nonbank-reported liabilities, and bank-reported liabilities. Currency shipments from U.S. banks to foreign banks are classified separately. While nearly all of other foreign assets are transactions with private foreigners, the category also includes transactions with international and regional organizations and with foreign government agencies that are not regarded as official agencies.

In the financial account, an increase in U.S.-owned assets abroad, or a financial outflow, is shown as a negative value, and a decrease in U.S.-owned assets abroad, or financial inflow, is shown as a positive value. An increase in foreign-owned assets in the United States, or a financial inflow, is shown as a positive value, and a decrease in foreign-owned assets in the United States, or financial outflow, is shown as a

negative value.

Increases and decreases in each type of U.S.-owned asset are netted against each other and shown as a single value. Increases and decreases in each type of foreign-owned asset in the United States are netted against each other and shown as a single value.

Estimates of official reserve assets and liabilities and of securities, bank, and nonbank transactions are based on reports by the U.S. Treasury Department. Estimates of direct investment are based on BEA surveys. These sources are supplemented by reports from U.S. government agencies and from the Federal Reserve Board, the Bank for International Settlements, the Bank of England, bilateral data from certain European countries, and market sources.

U.S.-owned assets abroad, excluding financial derivatives

U.S. official reserve assets. Gold measures transactions in monetary gold between U.S. government agencies (monetary authorities) and foreign governments or international monetary institutions. There have been no transactions in monetary gold since 1981.

Special drawing rights (SDRs), which are international reserve assets created by the International Monetary Fund (IMF) and allocated to members to supplement existing official reserves, measure transactions in U.S. holdings of SDRs, including SDR allocations, cancellations, acquisitions, and sales.

The reserve position in the IMF reflects IMF transactions in U.S. dollars, both with the United States and foreign countries. Normally, a member's reserve position in the IMF is equal to the member's quota in the IMF less the IMF's holdings of the member's currency.

Foreign currencies measures net transactions that affect U.S. Treasury Department and Federal Reserve System holdings of foreign currencies that are included in U.S. official international reserves.

U.S. government assets, other than official reserve assets. U.S. credits and other long-term assets measures the utilization of U.S. government credits (including loans) and other long-term assets by the transfer of resources to foreigners under programs enacted by the U.S. Congress for the provision of foreign assistance requiring repayment over a period of years, usually with interest. Transfers of resources represent the dollars disbursed and the dollar equivalents of goods transferred, services performed, or foreign currencies disbursed by the U.S. government to, or for the account of, a foreign government or other foreign entity. Transfers are valued on the basis of the obligation assumed by the debtor under the contractual agree-

ment for repayment. Also included are U.S. government credits to U.S. private entities for specific projects abroad. Other transactions included are capital subscriptions in, or contributions to, international financial institutions that provide development and other long-term economic assistance to foreign countries. (Excluded from this account are transactions with the International Monetary Fund, which are included in U.S. official reserve assets.)

Repayments on U.S. credits and other long-term assets measures collections of principal on credits and recoveries against other long-term assets.

U.S. foreign currency holdings and U.S. short-term assets, net, measures short-term lending by the U.S. government. Beginning in the fourth quarter of 2007, this account has been dominated by drawings and repayments under temporary dollar liquidity swap arrangements between the Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets. Also included, but of small magnitude, are acquisitions (less dispositions) of assets acquired by the U.S. government in the performance of guarantee and insurance obligations for private sector investments abroad. In earlier periods, government programs supported the financing of U.S. farm product exports by acceptance of foreign currencies and the financing of U.S. farm exports by the purchase of exporters' receivables.

U.S. private assets. U.S. direct investment abroad measures equity capital flows, reinvested earnings, and intercompany debt flows between U.S. direct investors and their incorporated and unincorporated affiliates abroad. (A direct investment relationship exists when there is 10 percent or more direct or indirect ownership interest by the parent of the voting shares of the affiliate abroad.) U.S. parents' *equity capital* in incorporated foreign affiliates and equivalent interest in unincorporated affiliates consists of changes in U.S. parents' holdings of capital stock in, and in other capital contributions to, their affiliates. *Reinvested earnings* of foreign affiliates are total earnings less distributed earnings. *Intercompany debt* consists of changes in U.S. parents' intercompany debt vis-à-vis their foreign affiliates. Assets are valued at current cost (or replacement cost) rather than at historical cost to ensure that reported measures of depreciation reflect current-period prices and to ensure that income earned in a given period is properly aligned with charges against income in the same period.

Foreign securities measures private net U.S. purchases of foreign stocks and bonds. Foreign securities consists of securities of foreign central governments

and their political subdivisions, of corporations and similar organizations chartered in foreign countries, and of international and regional organizations. The data are adjusted for security swap transactions that are not included in data provided by U.S. brokers and dealers and for brokerage commissions. U.S. residents' purchases and sales are netted against each other and a single amount is entered in the account as net U.S. purchases.

U.S. claims on unaffiliated foreigners reported by U.S. nonbanks measures changes in U.S. nonbank claims on unaffiliated foreign residents. The claims are distinguished between financial claims and commercial claims. More than two-thirds of transactions are in financial claims, such as resale agreements, short-term financial instruments, commercial paper, asset-backed securities, deposits, and intercompany account balances of certain financial intermediaries. Financial intermediaries' claims are in the form of intercompany balances.³ Increases and decreases in claims are netted against each other and a single amount is entered in the account.

U.S. claims reported by U.S. banks and securities brokers measures changes in U.S. banks' and brokers' claims on foreign residents. Claims are distinguished between banks' own claims and claims of domestic customers. Claims are further distinguished between those denominated in dollars and those denominated in foreign currencies. Claims take the form of resale agreements, negotiable certificates of deposit, short-term financial instruments, deposits and brokerage balances, and other claims (including loans). Increases and decreases in claims are netted against each other and a single amount is entered in the account.

Foreign-owned assets in the United States, excluding financial derivatives

Foreign official assets in the United States. Foreign official assets measures net transactions by foreign monetary authorities and other official foreigners in U.S. Treasury bills, certificates, bonds, and notes, both marketable and nonmarketable; in bonds and notes of U.S. federally sponsored agency securities; in U.S. government liabilities associated with U.S. military agency sales contracts and in other U.S. government nonmilitary liabilities; in U.S. government liabilities reported

by U.S. banks, brokers, and dealers; and in stocks and bonds of U.S. corporations and in bonds of state and local governments. Increases and decreases in security holdings and deposit balances are netted against each other and a single amount is entered for each category.

Other foreign assets in the United States. Foreign direct investment in the United States measures equity capital flows, reinvested earnings, and intercompany debt flows between U.S. incorporated and unincorporated affiliates and their parents abroad. (A direct investment relationship exists when there is 10 percent or more direct or indirect ownership interest by the parent of the voting shares of the affiliate abroad.) Foreign parents' *equity capital* in incorporated U.S. affiliates and equivalent interest in unincorporated affiliates consists of changes in the foreign parents' holdings of capital stock in, and in other capital contributions to, their affiliates. *Reinvested earnings* of U.S. affiliates are total earnings less distributed earnings. *Intercompany debt* consists of changes in U.S. affiliates' intercompany debt vis-à-vis their foreign parents. Assets are valued at current cost (or replacement cost) rather than at historical cost to ensure that reported measures of depreciation reflect current-period prices and to ensure that income earned in a given period is properly aligned with charges against income in the same period.

U.S. Treasury securities measures net purchases by private foreign residents and international financial institutions of U.S. Treasury bills, notes, bonds, certificates of indebtedness, and special nonmarketable U.S. Treasury issues. Excluded from this account are net purchases by foreign official agencies. Foreign residents' purchases and sales are netted against each other and a single amount is entered in the account as net foreign purchases.

U.S. securities other than U.S. Treasury securities measures net purchases by private foreign residents and international financial institutions of U.S. stocks, U.S. corporate bonds, and U.S. agency bonds. Excluded from this account are net purchases by foreign official agencies. Data are adjusted for security swap transactions that are not included in data provided by U.S. brokers and dealers and for brokerage commissions. Foreign residents' purchases and sales are netted against each other and a single amount is entered in the account as net foreign purchases.

U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns measures changes in U.S. nonbank liabilities to unaffiliated foreign residents. The liabilities are distinguished between financial liabilities and commercial liabilities. Liabilities are

3. Financial intermediaries' accounts represent transactions between firms in a direct investment relationship (that is, between U.S. parents and their foreign affiliates or between U.S. affiliates and their foreign parent groups), where both the U.S. and foreign firms are classified in a finance industry, but the firms are neither banks nor securities brokers.

further distinguished between those denominated in dollars and those denominated in foreign currencies. Typically, these transactions are dominated by financial liabilities, such as resale agreements, short-term financial instruments, deposits, and intercompany account balances of certain financial intermediaries. Financial intermediaries' liabilities are in the form of intercompany account balances. Increases and decreases in liabilities are netted against each other and a single amount is entered in the account.

U.S. liabilities reported by U.S. banks and securities brokers measures changes in U.S. banks' and brokers' liabilities to foreign residents. Liabilities are distinguished between banks' own liabilities and liabilities of domestic customers. They are further distinguished between those in dollars and those denominated in foreign currencies. Liabilities take the form of repurchase agreements, negotiable certificates of deposit, short-term financial instruments, deposits and brokerage balances, and other liabilities (including loans). Increases and decreases in liabilities are netted against each other and a single amount is entered in the account.

U.S. currency measures net currency shipments from U.S. banks to foreign banks for use as a medium of exchange and a store of value.

Financial derivatives, net

Transactions in financial derivatives (forwards, futures, options, swaps, and credit derivatives) are reported on a net basis, which means that the value of U.S. cash receipts less U.S. cash payments on contracts with positive fair values and negative fair values is reported as a single amount. Consequently, in the ITAs, derivatives transactions cannot be separated into transactions for U.S.-owned assets abroad and for foreign-owned assets in the United States, as can transactions for all other types of financial assets. Instead, derivatives transactions are presented as a net amount on a single line that is separate from lines for transactions for U.S.-owned assets abroad and for foreign-owned assets in the United States. Transactions in both public exchange markets and private over-the-counter markets are included in the estimates.

Statistical discrepancy

If all international transactions that take place in a given period were estimated correctly and recorded in that period, credits would equal debits and the algebraic sum of the two—counting credits as positive and debits as negative—would be zero. In practice, that does not happen, because data are collected from many

different sources, each of which may be subject to error. The entry necessary to balance recorded credits and debits is termed the “statistical discrepancy”; it represents the sum of credits and debits in the international transactions statement with the sign reversed. A positive sign indicates that recorded debits exceed recorded credits, and a negative sign indicates that recorded credits exceed recorded debits.

Errors and omissions in recorded transactions may exist in any account and may arise for many reasons. Statistical reporting systems may be inaccurate in their measurement or may be incomplete in their coverage. Statistical reporting systems may overlap in their coverage of transactions or miss completely transactions that do not fall clearly under one reporting system or the other. Statistical reporting systems, which are often independent of each other, must capture identically opposite sides of the same transaction; for example, the total value for purchases of securities measured in one reporting system must be the same as the total value for payments for securities measured in another system. Finally, some accounts do not lend themselves to survey-based measurement but must be estimated indirectly from economic data series; these estimates depend critically on the adequacy of source data and appropriateness of estimation methodologies.

Often, the greatest challenges for statistical reporting systems result from rapid changes in economic and financial markets. During the economic cycle of 1997–2002, numerous and large mergers and acquisitions were hard to track and measure accurately. Throughout the 1990s and 2000s, the evolution and development of complex financial derivatives were incompletely recorded in the accounts for nearly all of the period. The rapid expansion in 2003–2008 of hedge funds, many of which operated from offshore locations, proved especially difficult to track because of the inability to locate officials responsible for reporting transactions. The securitization of assets in 2003–2008 and the establishment of special investment vehicles abroad to borrow funds in the United States for distribution abroad escaped tracking by traditional reporting systems; transactions had to be estimated from specially developed industry data. Difficulties in recording the entire process of securitization were compounded by the rapid runup in leveraging and then deleveraging of these activities.

It is not unreasonable to expect that the size and volatility of fluctuations in the statistical discrepancy might increase in times of heightened uncertainty and increased activity in the financial markets. In fact, there has been a tendency for this to be the case. But

the relationship is not strong, and the discrepancy may also be large in periods of relative stability in financial markets.

If both sides of a transaction are absent from the statistical reporting systems, the statistical discrepancy is unaffected, but the accounts will likely still contain errors, inaccuracies, or gaps in coverage.

At the global level, the statistical discrepancy represents net errors and omissions in recorded transactions. For individual countries and regions, in addition to errors and omissions, it also reflects discrepancies that arise when transactions with one country or region are settled through transactions with another country or region. These transfers of funds between foreign areas often occur because the dollar is used extensively in settling international transactions and forms a large part of the foreign currency reserves of many countries. Therefore, changes in dollar balances held by one country often cannot be accounted for by U.S. transactions with that country. Consequently, the statistical discrepancies included in the country and area estimates in table 12 of the standard presentation of the ITAs cannot be interpreted as a measure of the area distribution of global errors and omissions. Instead, they reflect a combination of errors and omissions and third-country settlements.

Data sources

The international transactions accounts are based on numerous source data, only some of which have been mentioned in the presentation of the individual accounts. However, there are five major sources of data, all from U.S. government agencies, which account for most of the data. These major sources are summarized below.

Goods exports and goods imports trade data are based on monthly tabulations of shipping documents that exporters and importers must file with the U.S. Customs and Border Protection, Department of Homeland Security, and that are tabulated by the Census Bureau.

Services exports and imports are based largely on BEA's mandatory quarterly and benchmark surveys of business services. They are supplemented by survey data from U.S. government agencies, from private sector sources, and by BEA estimates.

Financial flows for securities, bank, and nonbank investment are based on monthly, annual, and benchmark surveys administered by the Federal Reserve Bank of New York for the U.S. Treasury Department. These surveys are supplemented by reports from the Federal Reserve Board, the Bank for International Set-

tlements and bilateral data from certain European countries, the Bank of England, and market sources. Related estimates of income are estimated by BEA.

Financial flows for direct investment and related income flows are based on BEA's mandatory quarterly and benchmark surveys.

Transactions of U.S. government agencies engaged in international transactions are reported quarterly to BEA by those agencies.

Release and revision cycle

Quarterly ITA estimates are released in September, December, March, and June; the releases lag one quarter behind the reference period. Each quarter, preliminary estimates for the most recent quarter and revised estimates for the preceding quarter are released. After revised estimates for a quarter are released, there are no additional changes until the following June, when estimates are revised at the time of the annual revisions. On rare occasions, there can be exceptions. For example, for ITA estimates for the third quarter of 2009, BEA departed from its usual practice and revised the ITAs to include the six earlier allocations of special drawing rights from the IMF. Annual revisions, which include historical revisions and incorporate new estimating methodologies, usually cover the previous 4 years, but they often cover more years, depending on the nature of the revisions and the availability of source data.

For monthly goods and services estimates, preliminary estimates and revised estimates of goods for the preceding month are released approximately 6 weeks after the end of the reference month. For goods, after revised estimates for a month are released, no further changes are made until the annual revisions in June. For services, after revised estimates for a month are released, no further changes are made until more complete source data become available in September, December, March, and June. Annual revisions for both goods and services are made in June.

International standards

Generally, BEA aims to align its accounts with international standards set by the International Monetary Fund, the United Nations, and the Organisation for Economic Co-operation and Development. All have recently updated their guidelines. BEA views the implementation of these updated standards as a multi-year process; it has formed a steering committee to develop a strategy and process toward this goal. See the box "Implementing New International Standards."

International Investment Position Accounts

The international investment position (IIP) accounts present an additional dimension of the international economic standing of the United States. The international investment position accounts present the value of U.S.-owned financial assets abroad and the value of foreign-owned financial assets in the United States at the end of a calendar year; the difference between the two is the net international investment position. This picture contrasts with the international transactions accounts, which present transactions in U.S.-owned and foreign-owned financial assets during the year.

The organization of financial assets and financial liabilities in the IIP accounts is the same as that of the financial account in the ITAs (tables 2 and 3). The major organizing principle in classifying financial assets is the distinction between U.S.-owned assets abroad and foreign-owned assets in the United States. The sector identification for the assets is that of the domestic creditor for U.S.-owned assets and the domestic debtor for foreign-owned assets.

The functional breakdown of U.S. assets abroad dis-

tinguishes among U.S. official reserve assets, U.S. government assets other than official reserve assets, and private U.S. assets. Private U.S. assets are classified into direct investment, foreign securities, nonbank-reported claims, and bank-reported claims.

The functional breakdown for foreign assets in the United States distinguishes between assets held by foreign official agencies and those held by other foreigners. Foreign official assets are classified into U.S. Treasury securities, other U.S. government securities, other U.S. government liabilities, bank-reported liabilities, and other foreign assets. Other foreign assets are classified into direct investment, U.S. Treasury securities, U.S. securities other than Treasury securities, nonbank-reported liabilities, and bank-reported liabilities. Net currency shipments from U.S. banks to foreign banks are classified separately. While nearly all of other foreign assets are assets of private foreigners, the category also includes assets of international organizations and of government agencies that are not regarded as official agencies.

The changes in the position are divided into changes attributable to *financial flows* and changes attributable

Implementing New International Standards

Late last year, the International Monetary Fund released the sixth edition of the *Balance of Payments and International Investment Position Manual*. This update, the first since 1993, was coordinated with the update of the *System of National Accounts* in order to maintain consistency between the two sets of international guidelines. At about the same time, the Organisation for Economic Co-operation and Development updated its *Benchmark Definition of Foreign Direct Investment*. The release of these updated standards provides an opportunity for the Bureau of Economic Analysis (BEA) to consider introducing new treatments that bring its international economic accounts into closer alignment with the updated standards and with the accounts of other nations. It also provides a chance to consider changes in definitions, classifications, methodology, and presentation that are not related to the new standards but that will increase the overall quality and usefulness of the accounts.

BEA views the implementation of new standards and the introduction of other improvements as a multiyear process that will occur in phases. Selected changes related to the treatment of special drawing rights and catastrophic insurance settlements have already been made. Additional changes, which will be described in a forth-

coming article in the *SURVEY*, will be introduced in the annual revision scheduled to be released in June 2010. More substantial changes, some of which may require changes to presentation or new source data, will be introduced in later years.

In anticipation of these changes, BEA has formed a steering committee to develop a strategy and to establish processes for identifying, evaluating, and ultimately implementing new international standards and other changes. This process will provide an opportunity to rethink both products and processes. BEA will consult with both its source data suppliers and its major external and internal customers to determine if new data can be obtained and to understand the challenges that customers will face in their use of BEA statistics.

The alignment of BEA's international accounts with the most recent international standards should also help to maintain or improve the comparability of these accounts with those of other countries that are in the process of adopting these same standards. Furthermore, given the coordination of revisions to standards for international and national accounts, it should also facilitate better integration of the international accounts with BEA's national, industry, and regional economic accounts.

to *valuation adjustments*.

Financial flows

In order to estimate of the value of assets at yearend (and to measure how much their value increases or decreases from the end of one year to the end of the following year), four steps are needed. The first step is to add the *financial flows* for each class of U.S.-owned assets abroad and foreign-owned assets in the United States to the outstanding positions at the end of the previous year. These financial flows are the same as the flows contained in the international transactions accounts. Financial flows are usually the largest source of change from year to year in the amount of outstanding U.S.-owned assets abroad and foreign-owned assets in the United States. However, valuation adjustments have been larger in

some years, such as in 2008 when they accounted for over 60 percent of the change in the position.

Valuation adjustments

The next three steps add *valuation adjustments* for each class of assets, that is, sources of change in the value of assets that are independent of any financial flows and that sometimes can be large. The second step is to add holding gains and losses (sometimes referred to as unrealized capital gains and losses) attributable to fluctuations in asset prices over the course of the year. These changes are referred to as *price changes*. Price changes are relatively easy to observe for frequently traded assets in organized markets. For U.S. holdings of foreign securities, separate estimates of holding gains and losses are made for stocks and bonds traded on foreign exchanges.

Table 2. International Investment Position of the United States at Yearend, 2007 and 2008

[Millions of dollars]

Line	Type of investment	Position, 2007	Changes in position in 2008				Total (a+b+c+d)	Position, 2008
			Attributable to			Total		
			Financial flows	Valuation adjustments				
				Price changes	Exchange- rate changes			
(a)	(b)	(c)	(d)	(a+b+c+d)				
1	Net international investment position of the United States (lines 2+3)	-2,139,916	-505,060	-720,137	-583,040	478,907	-1,329,330	-3,469,246
2	Financial derivatives, net (line 5 less line 25).....	71,472	28,905	(4)	(4)	459,205	88,110	159,582
3	Net international investment position, excluding financial derivatives (line 6 less line 26).....	-2,211,388	-533,965	-720,137	-583,040	419,702	-1,417,440	-3,628,828
4	U.S.-owned assets abroad (lines 5+6)	18,278,842	(9)	(9)	(9)	(9)	1,609,316	19,888,158
5	Financial derivatives (gross positive fair value).....	2,559,332	(9)	(9)	(9)	4,065,217	6,624,549	
6	U.S.-owned assets abroad, excluding financial derivatives (lines 7+12+17).....	15,719,510	106	-1,954,331	-681,066	179,390	-2,455,901	13,263,609
7	U.S. official reserve assets.....	277,211	4,848	9,414	2,259	0	16,521	293,732
8	Gold.....	218,025	0	9,414	0	0	9,414	227,439
9	Special drawing rights.....	9,476	106	-242	0	0	-136	9,340
10	Reserve position in the International Monetary Fund.....	4,244	3,473	-34	0	0	3,439	7,683
11	Foreign currencies.....	45,466	1,269	2,535	0	0	3,804	49,270
12	U.S. government assets, other than official reserve assets.....	94,471	529,615	()	()	14	529,629	624,100
13	U.S. credits and other long-term assets.....	70,015	-152	()	()	14	-138	69,877
14	Repayable in dollars.....	69,742	-152	()	()	14	-138	69,604
15	Other.....	273	0	()	()	0	0	273
16	U.S. foreign currency holdings and U.S. short-term assets.....	24,456	529,766	()	()	0	529,766	554,222
17	U.S. private assets.....	15,347,828	-534,357	-1,963,745	-683,325	179,376	-3,002,051	12,345,777
18	Direct investment at current cost.....	3,451,482	332,012	31,016	-110,804	-4,922	247,302	3,698,784
19	Foreign securities.....	6,835,079	-60,761	-1,994,761	-535,246	0	-2,590,768	4,244,311
20	Bonds.....	1,587,089	-62,095	-95,005	-37,086	0	-194,186	1,392,903
21	Corporate stocks.....	5,247,990	1,334	-1,899,756	-498,160	0	-2,396,582	2,851,408
22	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns.....	1,239,718	-372,229	()	()	140,490	-247,798	991,920
23	U.S. claims reported by U.S. banks, not included elsewhere.....	3,821,549	-433,379	()	()	43,808	-410,787	3,410,762
24	Foreign-owned assets in the United States (lines 25+26)	20,418,758	(9)	(9)	(9)	(9)	2,938,646	23,357,404
25	Financial derivatives (gross negative fair value).....	2,487,860	(9)	(9)	(9)	(9)	3,977,107	6,464,967
26	Foreign-owned assets in the United States, excluding financial derivatives (lines 27+34).....	17,930,898	534,071	-1,234,194	-98,026	-240,312	-1,038,461	16,892,437
27	Foreign official assets in the United States.....	3,403,995	487,021	-12,915	()	-6,739	467,367	3,871,362
28	U.S. government securities.....	2,540,062	543,498	148,201	()	-3,323	688,376	3,228,438
29	U.S. Treasury securities.....	1,736,687	477,652	112,084	()	-751	588,985	2,325,672
30	Other.....	803,375	65,846	36,117	()	-2,572	99,391	902,766
31	Other U.S. government liabilities.....	24,024	8,626	()	()	0	8,626	32,650
32	U.S. liabilities reported by U.S. banks, not included elsewhere.....	406,031	-153,443	()	()	0	-153,443	252,588
33	Other foreign official assets.....	433,878	88,340	-161,116	()	-3,416	-76,192	357,686
34	Other foreign assets.....	14,526,903	47,050	-1,221,279	-98,026	-233,573	-1,505,828	13,021,075
35	Direct investment at current cost.....	2,450,132	319,737	24,986	-6,393	-141,615	196,715	2,646,847
36	U.S. Treasury securities.....	639,715	196,619	54,349	()	-5,718	245,250	884,965
37	U.S. securities other than U.S. Treasury securities.....	6,190,067	-126,737	-1,300,614	-67,037	7,850	-1,486,538	4,703,529
38	Corporate and other bonds.....	3,289,077	-183,822	-180,165	-67,037	7,850	-423,174	2,865,903
39	Corporate stocks.....	2,900,990	57,085	-1,120,449	()	0	-1,063,364	1,837,626
40	U.S. currency.....	271,952	29,187	()	()	0	29,187	301,139
41	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	1,000,430	-45,167	()	()	-14,921	-67,115	127,203
42	U.S. liabilities reported by U.S. banks, not included elsewhere.....	3,974,607	-326,589	()	()	-26,975	-363,239	3,611,368
Memoranda:								
43	Direct investment abroad at market value.....	5,227,962	332,012	-2,240,547	-205,504	-42,734	-2,156,773	3,071,189
44	Direct investment in the United States at market value.....	3,593,291	319,737	-1,210,708	()	-145,438	-1,036,409	2,556,882

* Less than \$500,000 (+/-)

..... Not applicable

For foreign holdings of U.S. securities, separate estimates are made for U.S. Treasury securities, U.S. agency securities, U.S. corporate bonds, and U.S. stocks. For U.S. official reserve assets, the official gold stock is revalued to reflect the current market value at yearend.

The third step is to add gains and losses attributable to fluctuations in exchange rates, or *exchange-rate changes*. These changes arise as a result of the revaluation of foreign-currency-denominated assets and liabilities at current exchange rates. For U.S.-owned assets abroad, most of these changes are concentrated in U.S. holdings of foreign stocks and bonds. However, U.S. direct investment abroad must also be adjusted, and a small part of U.S. bank and nonbank assets is denominated in foreign currencies and must be adjusted. For foreign-owned assets in the United States, a small part of U.S. bonds is denominated in foreign currencies and must be adjusted. Foreign direct investment holdings in the United States must also be adjusted, and a small part of U.S. bank and nonbank liabilities must be adjusted.

The fourth step is to add changes attributable to *other changes*. These changes are statistical in nature, which for one reason or another, cannot be classified either as financial flows, price changes, or exchange-rate changes. These statistical adjustments include changes in coverage due to year-to-year changes in the composition of reporting panels, primarily for the bank and nonbank estimates, and breaks in series attributable to differences between sample and annual or benchmark survey results, primarily for the securities and direct investment estimates. Other statistical adjustments include differences between cumulative transactions data and position data for securities, and capital gains and losses of direct investment affiliates and other changes in direct investment positions that cannot be identified as to the specific type of valuation change. For financial derivatives, data that permit the separation of the three types of valuation adjustments are not available; however, the total of all valuation changes is included in the yearend position estimate.

Table 3. International Investment Position of the United States at Yearend, 2006–2008

[Millions of dollars]

Line	Type of Investment	2006	2007	2008
1	Net international investment position of the United States (lines 2+3)	-2,184,282	-2,139,916	-3,469,246
2	Financial derivatives, net (line 5 less line 25)	59,836	71,472	159,582
3	Net international investment position, excluding financial derivatives (line 6 less line 26)	-2,244,118	-2,211,388	-3,628,828
4	U.S.-owned assets abroad (lines 5+6)	14,428,137	18,278,842	19,888,158
5	Financial derivatives (gross positive fair value)	1,238,995	2,559,332	6,624,549
6	U.S.-owned assets abroad, excluding financial derivatives (lines 7+12+17)	13,189,142	15,719,510	13,263,609
7	U.S. official reserve assets	219,853	277,211	293,732
8	Gold	165,267	218,025	227,439
9	Special drawing rights	8,870	9,476	9,340
10	Reserve position in the International Monetary Fund	5,040	4,244	7,683
11	Foreign currencies	40,676	45,466	49,270
12	U.S. government assets, other than official reserve assets	72,189	94,471	624,100
13	U.S. credits and other long-term assets	71,635	70,015	69,877
14	Repayable in dollars	71,362	69,742	69,604
15	Other	273	273	273
16	U.S. foreign currency holdings and U.S. short-term assets	554	24,456	554,222
17	U.S. private assets	12,897,100	15,347,828	12,345,777
18	Direct investment at current cost	2,948,172	3,451,482	3,698,784
19	Foreign securities	5,604,475	6,835,079	4,244,311
20	Bonds	1,275,515	1,587,089	1,392,903
21	Corporate stocks	4,328,960	5,247,990	2,851,408
22	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	1,184,073	1,239,718	991,920
23	U.S. claims reported by U.S. banks, not included elsewhere	3,160,380	3,821,549	3,410,762
24	Foreign-owned assets in the United States (lines 25+26)	16,612,419	20,418,758	23,357,404
25	Financial derivatives (gross negative fair value)	1,179,159	2,487,860	6,464,967
26	Foreign-owned assets in the United States, excluding financial derivatives (lines 27+34)	15,433,260	17,930,898	16,892,437
27	Foreign official assets in the United States	2,825,628	3,403,995	3,871,362
28	U.S. government securities	2,167,112	2,540,062	3,228,438
29	U.S. Treasury securities	1,558,317	1,736,687	2,325,672
30	Other	608,795	803,375	902,766
31	Other U.S. government liabilities	18,682	24,024	32,650
32	U.S. liabilities reported by U.S. banks, not included elsewhere	297,012	406,031	252,588
33	Other foreign official assets	342,822	433,878	357,686
34	Other foreign assets	12,607,632	14,526,903	13,021,075
35	Direct investment at current cost	2,154,062	2,450,132	2,646,847
36	U.S. Treasury securities	567,861	639,715	884,965
37	U.S. securities other than U.S. Treasury securities	5,372,339	6,190,067	4,703,529
38	Corporate and other bonds	2,824,871	3,289,077	2,865,903
39	Corporate stocks	2,547,468	2,900,990	1,837,626
40	U.S. currency	282,627	271,952	301,139
41	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	799,471	1,000,430	873,227
42	U.S. liabilities reported by U.S. banks, not included elsewhere	3,431,272	3,974,607	3,611,368
	Memoranda:			
43	Direct investment abroad at market value	4,470,343	5,227,962	3,071,189
44	Direct investment in the United States at market value	3,293,053	3,593,291	2,556,882

Net investment position

The sum of the *financial flows* and the three types of *valuation adjustments* for each class of assets, when added to the previous yearend positions of the assets, yields the position estimates for each class of assets at the end of the current year. The net U.S. international investment position at yearend is the value of U.S.-owned assets abroad minus the value of foreign-owned assets in the United States. A negative value indicates an excess of foreign-owned assets in the United States over U.S.-owned assets abroad, and a positive value indicates an excess of U.S.-owned assets abroad over foreign-owned assets in the United States.

In addition, the difference between two yearend estimates yields the change in the value of U.S.-owned assets, the change in the value of foreign-owned assets, and the change in the net investment position. These changes differ from the changes in the international transactions accounts by the amounts of the valuation adjustments.

Release and revision cycle and data sources

The IIP accounts are released and revised annually late in June. The accounts incorporate the most recent financial flow estimates, which are released in mid-June. Data sources are the same as those used for the financial accounts of the ITA accounts, supplemented by financial and foreign exchange market data from industry sources.

Appendix I: Presentation of the ITAs in the NIPAs

The ITAs are presented in NIPA table 4.1, which appears with each monthly release of the NIPA estimates and which is reproduced here as table 4. The organization of the table is consistent with the organization of the ITAs, but the ITA data are arranged in order to meet the presentation requirements of the NIPAs.

Table 4.1 is divided into three sections—current receipts from the rest of the world from exports of goods, services, and income receipts; current payments to the rest of the world for imports of goods, services, and income payments; and current taxes and transfer payments to the rest of the world. The values for these basic building blocks agree exactly with those for the ITAs after the adjustments noted in appendix II.

Within exports and imports of goods, there is a distinction between durable goods and nondurable goods. This distinction is used throughout the domestic sector of the NIPAs. Within income receipts and income payments, the term “wages and salaries” is

equivalent to the term “compensation of employees” in the ITAs. The entries for interest and dividend income combine the ITA income transactions of direct investment, “other” investment, and U.S. government investment, which are then divided into interest, dividends, and reinvested earnings in the NIPA presentation. Within current taxes and transfer payments to the rest of the world, the ITA total for unilateral current transfers (net) is divided among transfers from persons, government, and business, all of which are included on a net basis. In the addenda section, the entry for capital account transactions is the ITA capital account with the sign reversed.

The balance on current account on a NIPA basis minus the balance on capital account shows that current payments to the rest of the world were not fully funded by current receipts from the rest of the world. In an accounting sense, the deficit can also be viewed as the amount of borrowing required from the rest of the world or the disposal of assets.

Table 4. Foreign Transactions in the National Income and Product Accounts (NIPAs)

[Billions of dollars]

	Line	2006	2007	2008
Current receipts from the rest of the world	1	2,192.1	2,517.7	2,640.3
Exports of goods and services	2	1,471.0	1,655.9	1,831.1
Goods	3	1,024.4	1,139.4	1,266.9
Durable	4	709.1	776.8	822.8
Nondurable	5	315.3	362.6	444.1
Services.....	6	446.6	516.5	564.2
Income receipts	7	721.1	861.8	809.2
Wage and salary receipts	8	2.9	3.0	3.0
Income receipts on assets	9	718.2	858.8	806.2
Interest.....	10	283.7	354.2	261.9
Dividends.....	11	186.0	233.3	258.7
Reinvested earnings on U.S. direct investment abroad	12	248.4	271.3	285.6
Current payments to the rest of the world	13	2,990.5	3,242.4	3,347.6
Imports of goods and services	14	2,240.3	2,369.7	2,538.9
Goods	15	1,884.9	1,987.7	2,126.4
Durable	16	1,130.2	1,175.1	1,160.9
Nondurable	17	754.7	812.5	965.5
Services.....	18	355.4	382.1	412.4
Income payments	19	648.6	746.0	667.3
Wage and salary payments	20	9.5	10.1	10.4
Income payments on assets	21	639.1	736.0	656.9
Interest.....	22	461.5	579.2	489.9
Dividends.....	23	108.1	107.1	112.1
Reinvested earnings on foreign direct investment in the United States	24	69.5	49.7	55.0
Current taxes and transfer payments to the rest of the world (net)	25	101.5	126.6	141.4
From persons (net)	26	51.6	58.7	64.5
From government (net)	27	28.8	36.5	40.8
From business (net)	28	21.1	31.4	36.2
Balance on current account, NIPAs	29	-798.4	-724.7	-707.2
Addenda:				
Net lending or net borrowing (-), NIPAs.....	30	-802.6	-726.8	-706.8
Balance on current account, NIPAs	31	-798.4	-724.7	-707.2
Less: Capital account transactions (net).....	32	4.2	2.2	-0.4

Appendix II: Reconciliation of the ITAs and the NIPAs

Several adjustments are made to the ITA current-account data before incorporating them into the national income and product accounts (NIPAs), also known as the GDP accounts; these adjustments are generally small because the concepts and data used for the ITAs are similar to those used for the NIPAs. The adjustments are available in NIPA interactive data table 4.3B and are published annually in the August issue of the SURVEY OF CURRENT BUSINESS;⁴ the table is reproduced here as table 5. The largest adjustments are the territorial adjustment, the nonmonetary gold adjustment, and the adjustment for financial intermediation services indirectly measured (FISIM). These adjustments can have a noticeable impact on individual accounts for either exports or imports, but in recent years, they have tended to have only a small or negligible net impact on the balance on current account on the NIPA basis. The exception is the adjustment for U.S. territories (mainly Puerto Rico), which lowers the current-account deficit on the NIPA basis relative to the current-account deficit on the ITA basis.

Territorial adjustment. The ITAs and NIPAs use different definitions of the United States. The ITAs include exports and imports for the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and other territories and commonwealths, and U.S. foreign-trade zones. The territories and commonwealths are considered part of the United States because their legal and economic interests are more closely connected to the United States than to any other country. In contrast, the NIPAs exclude exports and imports of the territories and consider the territories as part of the rest of the world. This definition is used because most of the source data for the NIPAs do not include coverage of the territories, and thus the coverage is the same as for other measures of economic activity, such as employment and prices.

Gold adjustment. The ITAs and NIPAs use different estimates of nonmonetary gold transactions. Only a small share of international transactions in nonmonetary gold is for business or industrial use. Most transactions are for investment purposes or for transfer of existing stockpiles from U.S. to foreign locations where storage and depository services are more advantageous

than in the United States. Some nonmonetary gold held by foreigners in the United States may be transferred to foreign locations for subsequent sale to other foreigners. While these transactions should clearly be included in the ITAs the same as the sale or purchase of any other metallic ore, most transactions have little to do with production, consumption, or income in the current period because, in most cases, the gold has been previously extracted from the ground and refined. Therefore, the NIPAs remove the ITA estimates of nonmonetary gold exports and imports and replace them with an estimate more closely related to production,

Table 5. Relation of Foreign Transactions in the National Income and Product Accounts (NIPAs) to the Corresponding Items in the International Transactions Accounts (ITAs)

[Billions of dollars]

Line	2006	2007	2008
1 Exports of goods, ITAs.....	1,015.8	1,138.4	1,277.0
2 Less: Gold, ITAs.....	8.8	13.3	18.7
3 Statistical differences.....	0.0	0.0	0.0
4 Plus: Adjustment for U.S. territories and Puerto Rico.....	17.4	14.4	8.6
5 Equals: Exports of goods, NIPAs.....	1,024.4	1,139.4	1,266.9
6 Exports of services, ITAs.....	435.9	504.8	549.6
7 Less: Statistical differences.....	0.0	0.0	0.0
8 Other items.....	1.2	1.5	1.6
9 Plus: Adjustment for U.S. territories and Puerto Rico.....	5.1	5.2	5.4
10 Financial services furnished without payment.....	6.9	7.9	10.8
11 Equals: Exports of services, NIPAs.....	446.6	516.5	564.2
12 Income receipts, ITAs.....	682.2	818.9	764.6
13 Less: Statistical differences.....	0.0	0.0	0.0
14 Plus: Adjustment for U.S. territories and Puerto Rico.....	33.4	34.7	36.6
15 Imputed interest received from the rest of the world.....	-3.0	-2.5	-2.3
16 Adjustment for grossing of parent/affiliate transactions.....	8.4	10.6	10.3
17 Equals: Income receipts, NIPAs.....	721.1	861.8	809.2
18 Imports of goods, ITAs.....	1,863.1	1,969.4	2,117.2
19 Less: Gold, ITAs.....	5.6	8.8	12.5
20 Statistical differences.....	0.0	0.0	0.0
21 Plus: Gold, NIPAs.....	-3.1	-3.9	-4.2
22 Adjustment for U.S. territories and Puerto Rico.....	30.6	31.0	25.8
23 Equals: Imports of goods, NIPAs.....	1,884.9	1,987.7	2,126.4
24 Imports of services, ITAs.....	349.0	375.2	405.3
25 Less: Statistical differences.....	0.0	0.0	0.0
26 Plus: Adjustment for U.S. territories and Puerto Rico.....	6.4	6.8	7.1
27 Equals: Imports of services, NIPAs.....	355.4	382.1	412.4
28 Income payments, ITAs.....	634.1	728.1	646.4
29 Less: Statistical differences.....	0.0	0.0	0.0
30 Plus: Adjustment for U.S. territories and Puerto Rico.....	2.2	1.9	2.1
31 Imputed interest paid to the rest of the world.....	3.9	5.5	8.5
32 Adjustment for grossing of parent/affiliate transactions.....	8.4	10.6	10.3
33 Equals: Income payments, NIPAs.....	648.6	746.0	667.3
34 Balance on goods and services and income, ITAs (1+6+12-18-24-28).....	-712.3	-610.6	-577.7
35 Less: Gold (2-19+21).....	0.1	0.6	2.1
36 Statistical differences (3+7+13-20-25-29).....	0.0	0.0	0.0
37 Other items (8).....	1.2	1.5	1.6
38 Plus: Adjustment for U.S. territories and Puerto Rico (4+9+14-22-26-30).....	16.6	14.6	15.5
39 Equals: Net exports of goods and services and net receipts of income, NIPAs (5+11+17-23-27-33).....	-696.9	-598.0	-565.9
40 Unilateral current transfers, net, ITAs.....	91.3	116.0	128.4
41 Less: Statistical differences.....	0.0	0.0	0.0
42 Plus: Adjustment for U.S. territories and Puerto Rico.....	10.2	10.6	13.0
43 Equals: Current taxes and transfer payments to the rest of the world, net, NIPAs.....	101.5	126.6	141.4
44 Balance on current account, ITAs (34-40).....	-803.5	-726.6	-706.1
45 Less: Gold (35).....	0.1	0.6	2.1
46 Statistical differences (36-41).....	0.0	0.0	0.0
47 Other items (37).....	1.2	1.5	1.6
48 Plus: Adjustment for U.S. territories and Puerto Rico (38-42).....	6.4	4.0	2.5
49 Equals: Balance on current account, NIPAs (39-43).....	-798.4	-724.7	-707.2

4. An abbreviated table containing the reconciliation of the quarterly ITAs and the NIPAs is published in the SURVEY every month in appendix A in "Table 1. Relation of Net Exports of Goods and Services and Net Receipts of Income in the NIPAs to Balance on Goods and Services and Income in the ITAs."

consumption, and income. This is accomplished by setting NIPA exports of gold at zero and making a single entry on the import side of the accounts that is the excess of the value of gold in gross domestic purchases over the value of U.S. production of gold. Historically, U.S. domestic purchases of nonmonetary gold have far exceeded U.S. domestic production of nonmonetary gold.

FISIM adjustment. The ITAs and NIPAs use identical estimates of receipts and payments of monetary interest. However, the NIPAs add an additional estimate for implicit services provided by commercial banks, Federal Reserve banks, and property and casualty insurance companies in the form of both depositor and borrower services. Currently, the ITAs have no estimates of these services. The NIPA methodology for both depositor and borrower services is presented below.

For *depositor services*, the unpriced services are recorded as imputed interest paid by financial intermediaries and received by depositors. The adjustment arises because depository institutions resident in the United States—in NIPA terminology, “financial intermediaries except life insurance carriers”—provide services to nonresidents for which the intermediaries implicitly compensate themselves by paying depositors less interest on their deposits than the interest that the intermediaries earn from lending or investing the funds. Therefore, in the NIPAs, a service receipt is imputed as “financial services furnished without payment” and is added to ITA exports of “other” services; an equivalent amount is added to ITA income payments.

For *borrower services*, the unpriced services are recorded as a negative adjustment to the monetary interest received by financial intermediaries and interest paid by borrowers. The adjustment arises because nonresidents pay a higher interest rate for loans in exchange for the unpriced services provided to them by institutions resident in the United States. Therefore, in the NIPAs, the unpriced borrower services are subtracted from ITA income receipts, and an equivalent amount is added to ITA exports of “other” services.

Because the adjustments for both *borrower* and *depositor* services are offsetting, there is no net impact on the NIPA balance on current account.

Grossing of parent/affiliate transactions. In the ITAs, income transactions between parents and affiliates are recorded on a net basis. In ITA exports, U.S. parents’ receipts from foreign affiliates for interest are net of such payments by U.S. parents to foreign affiliates. In ITA imports, U.S. affiliates’ payments to foreign

parents for interest are net of such receipts by U.S. affiliates from foreign parents. In the NIPAs, these transactions are recorded on a gross basis. The amount of the adjustment is identical for income payments and for income receipts and, thus, does not affect NIPA net income receipts or the NIPA balance on current account.

The remaining differences relate primarily to differences in the presentation requirements between the ITAs and NIPAs. First, the estimates for the ITAs are presented at quarterly rates, whereas the estimates for the NIPAs are presented at annual rates. The ITA quarterly rates must be multiplied by 4 to convert the estimates to annual rates. Second, statistical differences may arise because of differences in the revision cycles of the ITAs and NIPAs. When this occurs, the NIPAs incorporate ITA revisions on a “best-change” basis until the following annual (or benchmark) revision, when all ITA revisions are incorporated on a “best-level” basis. Third, the estimates for the ITAs are in current dollars, whereas the estimates for the NIPAs are presented in both current dollars and in real terms (chained dollars). Most of the current-dollar estimates for goods are deflated by export and import price indexes prepared by the Bureau of Labor Statistics, and most of the estimates for services are deflated by producer price indexes, which are also prepared by the Bureau of Labor Statistics. Large fluctuations in prices can lead to quarterly patterns in the chained-dollar series that differ significantly from quarterly patterns in the current-dollar series. In recent years, the application of deflators has been a much larger factor in explaining differences in quarterly patterns between the current-dollar ITAs and the chained-dollar NIPAs than the definition and estimation differences.

Appendix III: Foreign Transactions Accounts in the NIPA Summary Accounts

Account 5. Foreign Transactions Current Account⁵

This account summarizes all of the current transactions of the United States with the rest of the world. It is reproduced here as table 6. This account is shown from the perspective of the rest of the world; that is, U.S. imports from other countries are shown as a *source* of income for the rest of the world on the right

5. These paragraphs are from Stephanie H. McCulla and Shelly Smith, “Account 5. Foreign Transactions Current Account” and “Account 7. Foreign Transactions Capital Account,” in *Measuring the Economy: A Primer of GDP and the National Income and Product Accounts* (Washington, DC: Bureau of Economic Analysis, September 2007): 12 and 13.

side of the account, and U.S. exports are shown as a *use* of that income on the left side. Similarly, payments made to the rest of the world from the left side of accounts 2, 3, and 4 (compensation, interest, dividends, or transfers) are shown as *sources* of foreign income, while the corresponding receipts by residents of the United States are shown as *uses* of foreign income. Exports and imports (as a deduction) flow directly into account 1 as components of GDP.

The balancing item, “balance on current account, national income and product accounts,” is measured as “current receipts”—U.S. exports of goods and services and income receipts from the rest of the world—less “current payments”—U.S. imports of goods and services, income payments to the rest of the world, and current taxes and transfer payments to the rest of the world. Current taxes and transfer payments includes taxes paid to foreign governments (less taxes received by the United States from foreigners) and current transfers (net) by persons, governments, and businesses.

In an accounting sense, the balance on the current

account minus the balance on capital account shows the extent to which current and capital payments to the rest of the world are funded by current and capital receipts; a positive balance suggests that current and capital receipts from the rest of the world exceed current and capital payments to the rest of the world, thereby allowing U.S. residents to lend or acquire other assets abroad. Conversely, any deficit must be funded through borrowing or the disposal of assets. Thus, the balance on the current account minus the balance on capital account can be viewed as the acquisition of foreign assets by U.S. residents less the acquisition of U.S. assets by foreign residents.

Account 7. Foreign Transactions Capital Account

This account summarizes the capital transactions with the rest of the world that already appear in account 6 (and thus maintains the “double-entry” characteristic of the summary accounts); additionally, it is useful to separately identify current and capital transactions with the rest of the world in separate accounts.

Table 6. Summary National Income and Product Accounts, 2008

[Billions of dollars]

Account 5. Foreign Transactions Current Account

Line		Line	
1	Exports of goods and services (1–28)	9	Imports of goods and services (1–29)
2	Income receipts from the rest of the world	10	Income payments to the rest of the world
3	Wage and salary receipts (3–13)	11	Wage and salary payments (1–3)
4	Income receipts on assets	12	Income payments on assets
5	Interest (3–20)	13	Interest (3–20)
6	Dividends (2–22)	14	Dividends (2–3)
7	Reinvested earnings on U.S. direct investment abroad (2–23)	15	Reinvested earnings on foreign direct investment in the United States (2–4)
		16	Current taxes and transfer payments to the rest of the world (net)
		17	From persons (net) (3–7)
		18	From government (net) (3–25 plus 4–5 plus 4–6 less 4–18 less 4–19)
		19	From business (net) (2–8 plus 2–14)
		20	Balance on current account, national income and product accounts (7–1)
8	CURRENT RECEIPTS FROM THE REST OF THE WORLD	21	CURRENT PAYMENTS TO THE REST OF THE WORLD AND BALANCE ON CURRENT ACCOUNT
	2,640.3		2,640.3

Account 7. Foreign Transactions Capital Account

Line		Line	
		2	Capital account transactions (net) (6–5)
		3	Transfer payments for catastrophic losses (net) (6–6)
		4	Other capital account transactions (6–7)
		5	Net lending or net borrowing (–), national income and product accounts (6–8)
1	BALANCE ON CURRENT ACCOUNT, NATIONAL INCOME AND PRODUCT ACCOUNTS (5–20)	6	CAPITAL ACCOUNT TRANSACTIONS (NET) AND NET LENDING, NATIONAL INCOME AND PRODUCT ACCOUNTS
	–707.2		–707.2

NOTE: Numbers in parentheses indicate accounts and items of counterentry in the accounts. For example, line 1 of account 5 is the counterentry to Exports (1–28) in account 1, line 28.

For the complete set of the seven summary accounts, see [SURVEY OF CURRENT BUSINESS 89 \(September 2009\): 48–49](#).