

Statistics Faroe Islands

The Faroe Islands Balance of Payments 1998-2002 Methodology & conceptual framework definitions

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The Faroe Islands Balance of Payments 1998-2002

Introduction

The balance of payments is the Faroese economic statistical statement that measures systematically, over the specific time period, the economic transactions between the Faroese residents and the rest of the world. Those economic transactions between residents and non-residents, consist of:

- I. export and imports of goods, that are recorded at market values
- II. export and imports of services such as travel, transport and communications
- III. income flows, covers compensation of employees and investment income
- IV. capital and financial flows, that include direct investment, portfolio and other investment
- V. transfers, offset entry that does not consist of the provision of a real resource or a financial item (such as gifts, aid)

In relation to the balance of payments flow-oriented framework, international investment position is the stock-oriented statistical statement that measures the value of the stock of the Faroese financial assets and liabilities with the rest of the world.

International statistical standards – Balance of payments and National Accounts

The Faroese National Statistical Agency-Hagstova Føroya is determined to follow the international standards while producing its balance of payments (BoP) and international investment position statistics (IIP). Before examining the relationship between the balance of payments and national accounts (NA), it will be useful to state reasons for following international standards.

International comparisons of the Faroese official balance of payments and international investment statistics can be used in a proper manner only if such comply with coherent, objective international standards. For such a purpose, domestic and foreign analysts need to be assured that the Faroese data satisfy international standards. Also, as a member of international community the Faroe Islands will be able to compare and reconcile its data with other nations.

The international standards that provide guidelines for a comprehensive and systematic coverage of an economy are published under the name of the System of National Accounts (SNA). SNA encompasses transactions, stocks and any changes that affect the level of assets and liabilities. It is a closed system, that is to say, the both ends of every transactions are recorded – each transactions is recorded as a resource for a one party and usage for another part of the system. Further on, only economic entities that are considered to be residents of the Faroese economy and their transactions are to be recorded. As far as the non-resident transactions are concerned, the SNA allows for a segment known as the *rest of the world account*. Following such framework, the system is closed, and the rest of the world account is constructed from the perspective of the rest of the world and not from the Faroese perspective. Both, BoP and IIP are constituent parts of SNA and there is almost complete concordance between them on such issues as; resident units that invoke the concept of economic

territory and the centre of economic interest, the concepts of valuation of transaction accounts, and the time of recording that are constructed on an accrual basis.

The Faroese Balance of Payments – Conceptual framework definitions

Regarding the conceptual framework of the Faroese BoP for the period up to and including 1998, it must be said, that such did not fully follow international standards that would reflect global analytical needs. Due to shortage of the human resources, the Faroese compilers concentrated on collecting external debt statistics (stock), which together with the data on export/import of goods were used to produce the Faroese BoP. Such framework led to non-recording of services, or more correctly, great variations in residual were reflecting greater variations in export/imports of services. Despite those shortcomings the Faroese BoP as such served its purpose well, especially during the period of the Great Economic Crisis 1989-1995, when information related to the external debt was of great importance for the Faroese society.

In the late 2002, after completing a process of reviewing the existing methodology, Hagstova Føroya decided to follow more closely international standards. For such a purpose, it was decided to implement the conceptual framework of the BoP as stated in the fifth edition of the International Monetary Fund Manual, referred to as BPM5. BPM5 is about to be implemented gradually, that is to say in two phases;

1. period 2003-2004 that will be used to produce the current account statistics, special focus on services
2. period 2004-2006 will be used to improve the current account statistics, and give more space to produce statistics on the Capital and financial accounts

At the end of this 3 years period, Hagstova Føroya hopes that objective of harmonising the statistical concepts, statistical units, classification and methodology will be at the level that satisfy international standards and global analytical needs. Needless to say, close co-operation with national compilers will be of great importance and as such will contribute to further improvement of the Faroese BoP and IIP statistics.

Concepts of territory and residence

The identification of transaction between resident and non-resident underpins the system of balance of payments and as such attributes of an institutional unit must be clearly defined. BPM5 established the concept of residence, which is not based on nationality as it might be expected, but it recognise the economic territory, and centre of economic interest as elements that determine the resident from non-resident status. "An institutional unit is a resident unit when it has a centre of economic interest in the economic territory of a country"¹

The economic territory of the Faroe Islands consists of the geographic territory, which includes the airspace and territorial waters, where the Faroe Islands have jurisdiction over fishing rights, and rights to fuels or minerals below the seabed. For the statistical purposes, the mainland Denmark and Greenland are not part of the Faroese BoP, even where both the Faroe Islands and Greenland are institutionally part of the Kingdom of Denmark.

¹ International Monetary Fund, "Balance of Payment Manual, Fifth Edition, 1993", (IMF, Publication Services, Washington, USA), p.20

It has been said, that an institutional unit has a centre of economic activity on the Faroe Islands if the same has already engaged in economic activity and transactions. The one -year period is normally taken as a guideline when deciding a centre of interest. As far as the main types of institutional units are concern, BPM5 defines two main categories;

- i) households and individuals who make up a households and
- ii) legal and social entities, corporations and quasi-corporations, non-profit organisations and the government

A household and all individuals who belong to the same household have the same resident status of the same country. When a resident leave a household and its economic territory for a foreign country where he or she start working continuously, he or she cease being a member of a resident household. However, individuals still treated as residents are;

- i) travellers or visitors- people that leave their economic territory for less than one year
- ii) workers or employees- seasonal labour border workers, crews of ships, aircraft, staff employed by international organisations and by foreign embassies, consulates and military bases.

When an enterprise is engaged in a significant productive activity of both goods and services within a country, such enterprise is to be treated as a resident unit of that particular country. Enterprises may be either financial or non-financial institutions and they may be privately or publicly owned, as well as controlled by residents or non-residents.

Double-entry system

During the one-year period the Faroese economy exchanges through its international trade real and financial items. That is to say, economic values are provided or received in exchange for other economic values. The balance of payments entries record such transactions by a double-entry recording system of credits and debits.

Consequently, the double-entry system clearly must equalise credit entries with debit entries. Both credit and debit entries are necessary for exports and imports of goods and services, income received and paid and financial assets and liabilities increases or reductions. However, a transfer entry is created where an economic value is received/provided without something of an economic value is exchange (international aid/transfer).

Balance of Payments Compilation System

The Dual System

Two different systems combined are used to compile the Faroese balance of payments:

- A. Survey system
- B. Administrative system

The *survey system* draws upon information from several kinds of statistical surveys. Sampling technique used vary across the field of study which very much depends on specific requirements. The structure of questionnaire follows closely the balance of payments structure and definition requirements. The advantage of such system lies in its flexibility but the same suffers a setback by low response rate as well as prolonged response time.

The *administrative system* draws information from various agencies that have already collected the relevant data. Such a system at the most is present in the case of the public sector that has full control over its external transactions. The major shortcoming of this system is weak data quality control.

Compilation Practices on the Faroe Islands

The smallness of the Faroe Islands is its major asset. However, that does not imply that balance of payment accounts are easier to collect, on contrary all enters on the current account require full attention. Advantage in being a smaller nation lies in targeting and contacting population sample. In a quite practical terms this means that the *insurance* and *financial services* as a part of overall service account can be obtained by simple calling those existing institutions and getting the data almost the same day.

On the other hand, other economic activities important for balance of payments account might not be so easily reachable for various reasons such as administrative costs, non-registered items and not the least priority given to external transactions recording. For such a reasons, it is *imperative* to “educate and inform” the relevant institutions and enterprises about various requirements that balance of payments compilation process might require from them in years to come.

CURRENT ACCOUNT (CA)

We turn now to the standard classification of the current account. There are three broad categories of the current account consisting of individual component items, which will be described in details later on.

- A. **Goods and Services** - consists of two separate accounts for goods and services. As defined in BPM5, goods covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and monetary gold.

Services constitute services that are provided between the Faroese residents and non-residents. They also include goods acquired by travellers (recorded under *travel service*), newspaper and periodicals sent on basis of direct subscription (recorded under *computer and information services*).

- B. **Income** – relates to income transactions between the Faroese residents and non-residents. There are two types of such transaction i) *compensation of employees* and ii) *investment income*. Compensation of employees comprises wages, salaries and other benefits, earned by individuals paid for their work in economies other than those in which they are residents. Investment income may involve income on equity (dividends) and income on debt (interest) and it is classified by *direct, portfolio* and *other investment income*.
- C. **Current Transfer** – involves the provision of an economic value between residents and non-residents where no quid pro quo is received (for example, international food & clothes donations). Current transfers are classified into two main categories: *general government* and *other sectors*

Faroese Current Account 1998-2002 (preliminary estimates)

The profile for the current account 1998-2002 should be considered as informative tool and its largest and most cyclical component will be analysed for illustrative purposes only. It is important to underline that our finding should be looked upon as **an attempt** to create CA rather than full economical and analytical statement.

The first attempt to compile the Faroese current account according to BPM5 definitions and guidelines gave us very good start where we were able to identify strong and weak data sources. Where data information was available such was entered directly in appropriate accounts. However, it was also needed to "supplement" data using auxiliary statistics to build and consequently test various economic models. At this stage of our CA compilation development, usage of economic models was found to be appropriate and irreplaceable in its operational speed, putting a question of accuracy aside for the time being. However, it is our intention to rely less on such modelling in the future even where some modelling would inevitably remain (estimates for *travel* and *transportation*).

Goods and services

Goods

Freight and the valuation of Faroese trade in goods

The trade in goods estimates included in the balance of payments *value imports* as they arrive on the Faroe Islands valued f.o.b. (free on board) at the frontiers of the exporting country. This is net of the *cost of freight to the Faroese border and any loss and damage* incurred in transit to the Faroe Islands. When the Faroese importers purchase goods f.o.b. and consequently arrange transport themselves, their payment for the goods consists of

- i) the traded value of the goods
- ii) the value of loss and damage
- iii) freight services
- iv) insurance services

If importers purchase goods c.i.f. - (cost, insurance and freight) that is, on arrival in the Faroe Islands - items (ii) to (iv) are paid by the foreign exporters in the first instance. However, c.i.f. prices are set accordingly, and consequently the Faroese importers end paying the costs of items (i) to (iv).

Therefore disregarding the payment basis, items (ii) to (iv) will represent costs to Faroese importers above the cost associated with the trade in goods entries (item i). The value of loss and damage, is normally part of the price paid to the non-resident exporter and represent debit entry and should be recorded as such. Further on, the freight and insurance services, should also be recorded under debit entries if such is provided by foreign entity, however, no entry should be created if Faroese resident provide it.

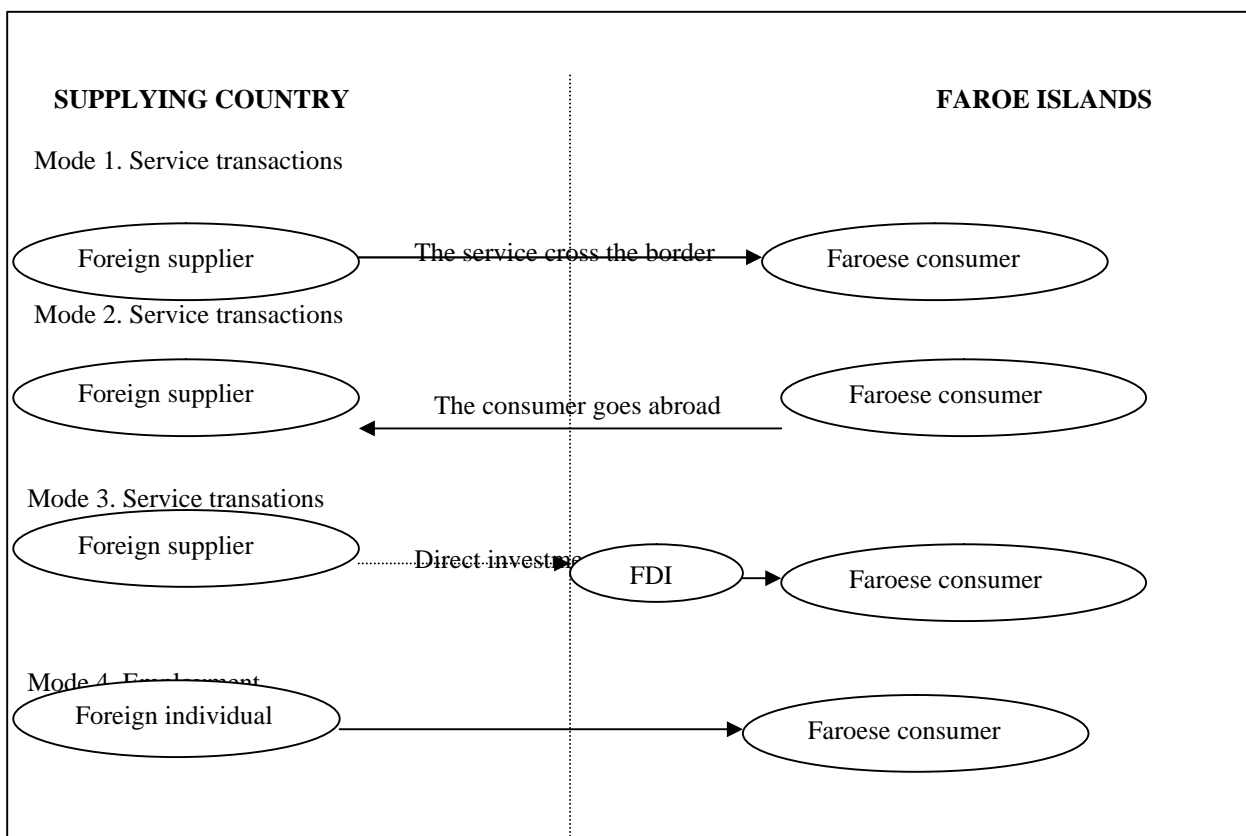
The estimates of trade in goods cover exports valued f.o.b. and those figures should include the value of loss and damage en route to importer. Normally, foreign importers would additionally bear the costs of freight and insurance services for the journeys outside the Faroe Islands. If such services were provided by Faroese residents credit entries would be created. However, to the best of our knowledge, the Faroese fish exporters in great majority of cases pay for all values i) to iv), generally to the Faroese transportation companies, who further subcontract foreign transportation entities. Consequently, such entries are recorded under transportation services.

Services

Trade in services

The General Agreement on Trade in Services (GATS) defines internationally agreed rules to cover international trade in services. Under GATS trade in services take 4 possible modes; i) cross-border supply, ii) consumption abroad, iii) commercial presence and iv) presence of natural persons.

- i) Mode 1, cross-border supply takes place when the Faroese consumer remain on the Faroe Islands while service is delivered to his or hers home territory (re-insurance).
- ii) Mode 2, consumption abroad occurs when the Faroese consumer moves outside his or hers home and consume services abroad (Tourist activities)
- iii) Mode 3, commercial presence, defines commercial presence abroad in order to strengthen a contact with consumer (Mærsk air, Eimskip presence on the F.I.)
- iv) Mode 4, presence of natural persons, occurs when an individual moves to the consumer territory to provide a service. (Various seminars held on the F.I.)



Measurement of trade in goods is inherently less difficult than measurement of trade in Services. Services are more difficult to define as some are defined through abstract concepts and it is difficult to peg any physical attribute or physical function to those activities. Trade in services does not require package crossing the customs frontier with an internationally recognised commodity code; information on quantity, origin, and destination as well as an invoice. For such a reason, an administrative system

based on customs duty collection is almost not existent. The information needed regarding the service trade, which must first be clearly defined, depends heavily on ability to reach a common understanding of concepts with data providers. Some data sources may be given; administrative sources, surveys, as well as estimation techniques and business yearly accounts.

Hagstova Føroya obeying at least minimum quality threshold must at the same time weight optimum burden towards information providers. Other issue that limits the amount of details on service statistics, and which must be taken on-board is issue of confidentiality and sensitivity of individual firm's data. It must be pointed out, that the later issue has an extreme importance given the fact that Faroese population numbers around 48000 inhabitants and where some enterprise activities are unique in its respect.

Trade in services covers the provision of services by the Faroese residents to non-residents and vice versa. Trade in services is presented into eleven broad categories of services, as follows:

- I. Transportation (Sea, Air and Other) - Passenger, freight and other
- II. Travel (Business and Personal)
- III. Communications services
- IV. Construction services
- V. Insurance services
- VI. Financial services
- VII. Computer and information services
- VIII. Royalties and licence fees
- IX. Other business services
- X. Personal, cultural and recreational services
- XI. Government services

I. Transportation (Sea, Air and Other) - Passenger, freight and other

The transportation account covers sea, air and other transport. All movement of passengers and freight should be included as well as other related transport services, such as chartering of ships or aircraft with crew, cargo handling, storage and warehousing, towing, pilotage and navigation, maintenance and cleaning, and commission and agents' fees associated with passenger/freight transportation

Sea transport

Exports by Faroese operators consist of freight services on Faroese exports and on cross-trades, the carriage of non-resident passengers, as well as the chartering of ships to non-residents. The port charges with associated services to the non-resident operators are also included on the export side. Conversely, on the debit side services purchased abroad by Faroese operators are recorded (the eventual chartering of ships from non-residents).

Air transport

The export of Faroese airline comprises the carriage of non-resident passengers to, from or outside the Faroe Islands, the carriage of Faroese exports of goods and cross-trades and the chartering of aircraft to non-residents. Exports also include airport charges and services purchased in the Faroe Islands by foreign airlines. Purchases of fuel and other goods are included within trade in goods.

Imports include expenditure abroad by Faroese airline on airport charges, crews' expenses, charter payments, etc. They also include payments to foreign airlines for the carriage etc. of Faroese imports of goods and of Faroese mail; and for the carriage of Faroese passengers on flights covered by tickets for journeys to or from the Faroe Islands.

II. Travel (Business and Personal)

A traveller is defined as an individual staying, for less than one year, in an economy of which he/she is not a resident. The exceptions are those military and diplomatic personnel, whose expenditure is recorded under government services. The one-year rule does not apply to students and medical patients, who remain residents of their country of origin, even if the length of stay in another economy is more than a year.

The estimates are formed primarily by using the auxiliary data, which seeks information on expenditure from samples of non-resident visitors leaving the Faroe Islands and of Faroese residents returning from abroad.

Business travel

Business travel is divided into expenditure by seasonal and border workers (individuals who work some or all of the time in economic territories that differ from their resident households) and other *business travel*. Estimates are created by relying on various data sources.

Personal travel

Personal travel covers holidays, visits to friends and relatives, the expenditures of people visiting for education and health reasons and miscellaneous purposes. Visits for more than one purpose, where none is distinguished as the main purpose, are classified as other.

Education related travel exports covers the tuition fees and other expenditure of students who are funded from abroad and studying on the Faroe Islands (imports covers the expenditure of Faroese students studying abroad).

Health related travel covers the cost of medical and other expenses of those travelling abroad for medical treatment. Estimates are based on information supplied by Faroese Ministry of Finance.

III Communications services

Communication services covers two main categories of international transactions: telecommunications (telephone, telex, fax, e-mail, satellite, cable and business network services) and postal and courier services.

IV Construction services

Construction services cover work done on construction projects and installations by employees of an enterprise in locations outside their resident economic territory. The source of information is the Construction Services survey. For construction services, where a permanent base is established which is intended to operate for a long period of time, the enterprise becomes part of the host economy and its' *transactions are excluded from the trade in services account*. Transactions where a permanent base is established are recorded under direct investment, within investment income.

V. Insurance services

Insurance services cover the provision of various types of insurance to non-residents by resident insurance enterprises and *vice versa*. Insurance services include freight insurance on goods being imported or exported, direct insurance (life, accident, fire,

marine, aviation etc.) and reinsurance. The amounts recorded in the accounts reflect the service charge earned on the provision of insurance services.

Freight

Treatment of freight insurance is consistent with the f.o.b valuation of trade in goods. That is, non-resident importers pay for freight and insurance on journeys outside the Faroe Islands. Where such services are provided by Faroese residents, this gives rise to a credit entry.

Reinsurance

Reinsurance represents subcontracting parts of risks, often to specialised operators, in return for a proportionate share of the premium income. Reinsurance may relate to packages, which mix several types of risks. Exports of services are estimated as the balance of flows between resident re-insurers and non-resident insurers. Imports are estimated as the balance of flows between resident insurers and non-resident re-insurers.

The main sources of information on insurance services are inquiries to insurance companies.

VI. Financial services

Financial services cover financial intermediary and auxiliary services other than those of insurance companies and pension funds. They include intermediary service fees associated with letters of credit, bankers' acceptances, lines of credit, financial leasing and foreign exchange transactions. Estimates are based on returns from the existing financial institutions on the Faroe Islands.

This covers Faroese banks' services;

- (i) commissions for credit and bill transactions
- (ii) spread earnings (dealing profits less holding gains);
- (iii) net receipts on foreign exchange dealing;
- (iv) commission on new issues of securities; and
- (v) banking charges, income arising from lending activities, fees, portfolio management and guarantees.

Future estimates (2004 onwards) are about to be based on inquiries carried out by the Faroese Governmental Bank which has ongoing project of collecting financial data from monetary institutions on the Faroe Islands.

VII. Computer and information services

Computer and information services cover computer data and news related service transactions including databases, such as development, storage and on-line time series; data processing; hardware consultancy; software implementation; maintenance and repair of computers and peripheral equipment; news agency services; and direct, non-bulk subscriptions to newspapers and periodicals. Information is obtained from the survey including administrative sources.

VIII. Royalties and licence fees

Royalties and licence fees cover the exchange of payments and receipts for the authorised use of intangible, non-produced, non-financial assets and proprietary rights (such as patents, copyrights, trademarks, industrial processes, franchises etc.) and with the use, through licensing agreements, of produced originals or prototypes (such as manuscripts and films).

The heading includes royalties, licenses to use patents, trade marks, designs, copyrights, etc.; manufacturing rights and the use of technical "know-how"; amounts payable or receivable in respect of mineral royalties; and royalties on printed matter, sound recordings and performing rights. The outright sale of a copyright is treated as a sale of a non-produced, non-financial asset and should be recorded within the Capital Account.

IX. Other business services

Other business services cover a range of services including merchanting and other trade-related services, operational leasing (rental) without operators and miscellaneous business, professional and technical services.

Merchanting and other trade related services

Merchanting is defined as the purchase of a good by a resident from a non-resident and the subsequent resale of the good to another non-resident, without the good entering the compiling economy. The difference between the purchase and sale price is recorded as the value of merchanting services provided.

Operational leasing

Operational leasing covers leasing (other than financial leasing) and charters of ships, aircraft and other transportation equipment without crews.

Miscellaneous business, professional and technical services

Miscellaneous services include legal, accounting, management consulting and public relations; advertising and market research and development; architectural, engineering and other technical services; agricultural, mining and on-site processing services associated with agricultural crops (protection against disease or insects), forestry, mining (analysis of ores) etc.; and other services such as placement of personnel, security and investigative services, translation, photographic etc. This item includes data from a number of different data sources.

X. Personal, cultural and recreational services

Personal, cultural and recreational services are divided into audio-visual, related services and other. The first category covers services and associated fees relating to the production of motion pictures (on film or video tape), radio and television programmes (live or on tape), and musical recordings. It includes rentals, fees received by actors, directors, producers, etc. The second category covers all other personal, cultural and recreational services including those associated with museums, libraries, archives, provision of correspondence courses by teachers or doctors, etc. Income received direct from abroad by examining bodies and correspondence course colleges is also included.

XI. Government services

Government services include all transactions by embassies, consulates, military units and defence agencies with residents or staff, military personnel etc. in the economies in which they are located. Other services included are transactions by other official entities such as aid missions and services.

Military units and agencies: this includes expenditure by the Danish military station in the Faroe Islands and for statistical purposes such payments are excluded from the Faroese Balance of payments.

Other: this comprises goods and services which the Faroese government provides to non-residents under its economic aid programmes) as well as miscellaneous goods and services.

Imports

Expenditure abroad by Faroese representatives: goods and services provided by local residents to Faroese diplomatic mission accounts for most of this heading.

Income

Following BPM5 definitions there are two types of transactions between residents and non-residents that should be included within Income account. Those are i) compensation of employees and ii) investment income.

- i) *Compensation of employees* account records wages, salaries and other benefits those Faroese individuals earn while working abroad and vice versa. Personal expenditure made by those individuals while working in the economies in which they are employed are recorded under *travel*. It is however difficult to make distinction between resident and migrant, later expected to become resident by virtue of being expected to live there for a year or more.
- ii) *Investment income* includes the receipts and payments on direct investment, portfolio investment and other investment. The *direct investment* cover income derivable to a direct investor from his or hers ownership of direct investment capital in an enterprise in another economy. *Portfolio investment* covers income transactions derived from holdings of bonds, shares, notes and other money market instruments, while *other investment income* covers interest receipts like interest on long- and short-term loans, on deposits or other commercial and financial claims.

Current transfer

The classification of current account is by i) *general government* and ii) *other sectors* and in its general form *transfers* records the provision of resources with no quid pro quo in economic value. That is to say, offsetting entry required by the double-system entry does not answer to the provision of a real or financial item and such offset should be recorded as a transfer. Current transfers (Danish transfer to the Faroe Islands) affect directly income and consumption of goods and services. Consequently, the donor income and consumption decreases, while income and consumption possibilities of the recipient increased.

- i) General government transfers records various transfers like; cash transfer destined to finance current expenditure by recipient government, gifts of food, cloths, annual and other regular contribution to international organisations.
- ii) Other transfers covers transactions like current taxes on income and wealth, social benefits pensions and pension payments.

Summary of Current Account 1998-2002 – Brief comments

Current account

Trade in goods and services

1. Transportation

Air transport

In order to estimate air transport an economic model was constructed. The primary source of data were airline companies themselves, their annual accounts and the statistics on airport passengers. It must be stated that data in its raw format did not comply with BPM5, and necessary adjustment were made (resident status, price). Our calculation used average price, and it was necessary to determine Country of residence and market capitalisation. The sensitivity of model was performed but test of the model was not possible due to missing vital data.

Formal request for more qualitative data was sent to both airlines as well as to the Statens Luftfarsvæsen Vagur. Once received, the data in question enabled us to test a model and these were our findings.

At the quantitative side, the model underestimated passengers' variable on import side, which led to overestimation of export side values. Number of passengers underestimated on import side as expressed in percentage of total were for years; 9% for 1998, 3% for 1999, 12% for 2000, 4% for 2001 and for 2% for 2002. Average underestimate for all 5 years in question was 6%, and for such a reason we are of opinion that model performed well.

As far as qualitative side of the model is concerned, underestimation was 9% for 1998, 3% for 1999, 14% for 2000, 4% for 2001 and 2% for 2002. Average underestimate for all 5 years analysed was 7%, which is slightly higher than above. Overall, we think that model is useful at this stage of our CA development, and effort is made toward obtaining more qualitative data from above mentioned airlines, which would even further improve accuracy of our statistics.

Sea Transport

As far as Sea transport estimates are concerned, it must be said that quality of data is considerably better, and as such it was easier to construct our estimates. The information of sea transport services used abroad is not available in its final form and we are of opinion that such debits are on the level with the credit side within our economy. Consequently, we are of opinion that the balance is not disturbed in its fundamental form.

2. Travel

Similar to transportation, travel estimate has been obtained by using available data with appropriate model. On the credit side, available statistics regarding accommodation per nationality was fused with the data from hotels, guesthouses, B&B

and others. The model further utilises seasonal average prices as paid per night and tries to estimate aggregate accommodation spending on the Faroe Islands. Total tourism consumption is derived by borrowing the Norwegian tourist survey that breaks tourist consumption in 3 tiers i) accommodation services (30%), ii) consumption of products characteristic of tourist industry (34%) and iii) other consumption (36%). A sensitivity analysis was performed by using different tiers, which gave somehow extreme results, and decision was made to stick with the Norwegian values as a point of reference.

On the debit side, the work was much harder as no available data exist and estimation procedure had to be based on somehow arbitrary values. We were able to define a quantitative part with the great confidence, which was used as starting point of estimation. Given the fact that the Faroese citizens have close relatives in Denmark, their spending patterns as far as accommodation issue is concern, is somehow different and such a fact was taken on board during the estimation procedure. It must be pointed that the Hagstova Føroya and Faroese Tourist Board have ongoing travel survey project which will enable us to determine qualitative data and rely less on our arbitrary determined set of values.

3. Communication

Enters for Communication services covers two main categories of transactions, telecommunication and postal services. Both services were reported using administrative system as these services are of a unique nature on the Faroe Islands, however it was difficult to clearly identify support services and for such a reason we needed to rely on estimates. Payments for using communication network from abroad were estimated for years 1998 & 1999 while period 2000 to and including 2002 was documented and recorded as such.

4. Construction

The House of Industry was kind enough to provide us with the list of enterprises that in their opinion had performed some work abroad. Initial contact was made with such enterprises, which was followed by survey. It must be said that response to survey was very poor, and we had to rely on more on interviews than hard copies. Consequently, our sampling was not random, and for such a reason it was impossible to determine our bias. On the debit side, we were able to identify the main projects and such were recorded.

One of the difficulties, apart of danger of double counting (goods recording & goods used in project) was enters on ship repairs. Around 120 ships' owners were surveyed, as well as around 60 construction firms including shipyards at home and abroad. The data quality obtained varies across the sectors and time, but we were very pleased with the response and are of opinion that data in question reflect real construction activity, which is most probably biased downward as far as debit side is concerned as sampling technique was not fully developed. As far as credit side is concerned we do not have means to check for our values and they must be taken as given.

5. Insurance

Administrative system was applied while recording the insurance services, process relatively straightforward due to a nature and number of active insurance companies on the Faroe Islands. To the best of our knowledge, the Faroese insurance companies did not provide directly insurance services abroad, while for re-insurance, all flows occurring between the resident insurer and non-resident re-insurer were reported for both debit and credit sides respectively.

6. Financial

It must be said that the Faroese financial sector is not sophisticated international provider of such services and its main activity is "home based". Service fees regarding the letters of credit, bankers' acceptance, lines of credit or financial leasing are very few in numbers and record negligible monetary values. On the other hand, foreign exchange transactions as well as commission and other fees payments are taking place and they are recorded as such under our financial services.

7. Computer and information

We are aware that computer and information services coverage was easy in principles but difficult to follow up in practice. Identification process of the main enterprises involved in those transactions, as well as public sector involvement led to inter-dependable network, and danger of double counting was present. Consequently, a priori expectation of downward bias was present and we found it difficult to improve such situation at the time. Also, final figures lead us to conclude that a priori expectations was rightly founded, and the latest developments tempt us to question our results, which need to be improved. So to speaking, the Computer and information services as part of overall services do not satisfy our precision levels and for such a reason more emphasis will be added towards this enter for years to come.

8. Royalties and licence fees

Similar to above Computer and information services, Royalties a licence fees was methodologically difficult to implement. The main culprit was the identification process

of both providers/consumers and their awareness of such activities. Being a small country, we are of opinion that activity in question is on very small scale. Also, information available gave us impression that credit side is non-existent whatsoever. Further investigation of the matter will be applied in order to improve the statistics in the question.

9. Other business

The groups of other businesses like merchanting, operational leasing, miscellaneous business, management consulting, legal and accounting services are very well defined within some branches of business. We have decided, based on cost-benefit issue to use average well-defined statistics of the above activity. Our estimation procedure, which is at the very early stage, suffers from low range of values, and improvements in such regard must be made before we will be able to see some fruitful results.

10. Personal, cultural and recreational

The transactions involving Personal, cultural and recreational enters were relatively easy to identify especial first sub-item i) audio-visual and related services that comprise mainly fees associated with production of motion pictures, radio and television program and musical recording.

The second sub-item ii) other cultural recreational services were much harder to identify as such involves transactions involving museums, libraries, archives and other cultural, sporting and recreational activities. The info was based on various administrative sources, as well as on interviews.

11. Government

Government services being a residual category cover mainly government service transactions not covered above. On the debit side, transactions regarding Faroese representatives abroad are recorded by relying on the administrative data provided kindly by the Treasury. On the other hand, based on interviews, all eleven consuls on the Faroe Islands are Honorary Consuls and as such their work and associated symbolic expenses as foreign country representative are not paid.

Income

Compensation of employees

Tax office was the main administrative source of our data. Data was very well recorded as far as wages and salaries were concerned, due to different allowances scheme it was relatively easy to determine resident from non-resident. Due to change in registration system from 2001, it was necessary to estimate fishermen income from abroad. Estimates were based on figures from previous years and did not show sudden changes over the time.

Investment income

As far as income from investment is concerned, it must be said that no quality data was to be found. The Ministry of Trade and Industry who made recommendations towards the foreign direct investment on the Faroe Islands were not able to provide us with the quality data as such was not compiled whatsoever. For such reasons, it was necessary to estimate both the Faroese investment abroad and foreign investment at home.

The Tax office has just commenced with such recording, but due to a double taxation agreement with Denmark, such recording will not be sufficient for our purposes. The most useful point of reference was yearly accounts, which record investment income. Also, we were able to get data from Central Banks of Iceland and Denmark regarding stock of FDI on the Faroe Islands, while attempt to get same from Norway did not get any results. Such data compiled with international standards and through annual surveys gave us some confidence level to determine our estimates, but we were not able to statistically determined bias of such estimation procedure. Given the fact that errors from chance will cancel each other out in the long run, and those from bias will not, we are of opinion that our results are not final yet, and they need careful interpretation.

The figures for Other investment income was survey based info that covers interest receipts from abroad and payments to abroad on Faroese claims and liabilities respectively.

Overall Income enters need to be improved and we strongly suspect the accuracy of our findings. The future work is needed to improve our findings especially at the Investment Income level.

Current Transfer

Current transfer recording is administrative based system and as such data was readily available from the Treasury. We were able to identify all transfers classified under *general government* as well as *other sectors*. Some transfers to abroad were in kind (clothes) and it was necessary to add monetary value, while others were easily identify such as various pension funds and lotteries. However, we were not able to cover entries

for gifts, inheritances, alimonies and other support remittances due to shortage of human resources. We are of opinion that such entries are very small, and most probably do not

affect our balance in the fundamental way and additional work will try to determine more accurate values.

Future challenges

One of the most frequently asked question posed by respondents during the data gathering process was pointed towards the end & purpose of our activity. Quite rightly one should be entitled to ask such a question and we would like to give brief non-technical answer to such an inquiry. Indeed, we find it ourselves pointless to produce such statistics if there are no users, but we also believe that there is a serious need for the CA statement for various reasons.

Apart from statistical statement that can be used for international comparisons, our current account should be looked primarily as one of the key macroeconomic indicators that can and should be used within policy-making framework. Given the structure of our small open economy that is very vulnerable to exogenous shocks it is of utmost importance to be able to differentiate not only changes in levels of activity due to such shocks but also the main parameters that affect or are affected by levels changes.

With another words, analytical statements of current account deficit or surplus not followed by further specifications and causes wont help a lot as far as policy making is concerned. Finally, by improving quality of our current account, sensitivity analysis within potential policy making will have better foundations and most probably better results.

So far as our future work is concerned, apart from improvements of current account it is perhaps worth noting that our external debt statistics are in need of various improvements. Both current account and external debt variables are of the great importance for the small island economy as ours and it is perhaps imperative to get those two to the satisfactory levels. Our initial work points out that both are seriously flawed for various reasons and we are of opinion that by implementing various improving adjustments both statistics can reach satisfactory quality/quantity levels within a few years.

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