

## **Q&A on the Revisions of the Balance of Payments (BOP) Statistics**

### ***Why do we need to revise the BOP?***

The revisions in the BOP statistics are in line with the continuing efforts of the BSP to improve the BOP statistics and align the BOP compilation with international standards as embodied in the BOP Manual, Fifth Edition (BPM5) of the International Monetary Fund. Compliance with the BPM5 allows comparison of data with other IMF member-countries. More importantly, the revisions would make the BOP statistics more consistent with other macroeconomic indicators such as those of the national income account and the international investment statistics thereby provide more meaningful and firmer basis for analyses and policy formulation.

### ***What is the nature of the revisions?***

The revisions involve the following:

- a) Changes in coverage, treatment, classification and valuation of a number of transactions in the BOP in accordance with the guidelines under the BPM5 (e.g. inclusion of more transactions that are not coursed through the banking system, adoption of the BPM5-recommended criterion on residency, and inclusion of financial derivatives ).
- b) Incorporation of the adjusted import statistics agreed among members of the Inter-Agency Committee on Trade Statistics (IACTS) based on its findings of trading practices under consignment/outsourcing arrangement particularly in electronics exports. The IACTS consists of representatives from the National Economic and Development Authority (NEDA), the National Statistics Office (NSO), the National Statistics Coordination Board (NSCB), the Bureau of Customs (BOC) and the Philippine Economic Zone Authority (PEZA) and the Bangko Sentral ng Pilipinas (BSP). (See Annex 1)

***What were the major accounts affected in the BOP and the specific revisions done?***

*The major accounts affected by the revisions include:*

*✍ Exports and Imports of Goods: (See Annex 2)*

- Upward adjustment in the value of imported raw materials for electronics under consigned arrangement to reflect correct valuation;
- Inclusion of fish caught and sold (as exports) or purchased (as imports) in high seas (i.e. tuna) to correct undercoverage of trade-in-goods transactions; and
- Inclusion in imports of remittances by overseas Filipino workers (OFWs) sent in-kind and goods for military use to correct undercoverage

*✍ OFW-related accounts (See Annex 3)*

- Application of raising factor to account for remittances (cash or in-kind) that are not coursed through the banking system; and
- Adoption of the one-year residency rule to measure and classify OFW transactions in accordance with the guidelines under the BPM5.

In the revised BOP, the OFW transactions are distinguished according to the residency of the OFWs. Resident OFWs include those with work contracts of less than one year (e.g., performing artists); and b) sea-based OFWs, regardless of the length of contract. Gross earnings of these workers, whether they are remitted or not, are shown as Compensation of employees under the income account. Meanwhile, OFW expenditures in host economies are recorded under travel imports while expenditures in the form of remittances in-kind are recorded under trade imports.

Non-resident OFWs, on the other hand, refer to OFWs with work contract of one year or more (i.e., other landbased workers excluding performing artists). Remittances of non-resident OFWs are shown as Worker's remittances under current transfers. **Meanwhile, expenditures of non-resident OFWs during their home visits in the Philippines are reflected under travel exports.**

✍ Trade Credits

- Change in the methodology of estimation that uses data obtained from the results of the Cross Border Transactions Survey and external debt statistics, rather than from trade shipment and trade receipts/payments data.

✍ Other Adjustments

- Direct and portfolio investments to include transactions which are not coursed through the banking system (e.g., resident investments abroad, non-residents' investment in the Philippines coursed through bank accounts abroad of residents), revisions after audit and late reports.

***What are the implications of the revisions?***

- ✍ The revisions will not affect the overall BOP position since it is derived from the change in the BSP net international reserves. The effects are only confined to relevant accounts in the BOP (e.g., trade, income, current transfers, services and financial accounts).
- ✍ Current account remains in surplus but smaller. The expansion in the coverage of OFW-related accounts to include remittances that were not coursed through the banking system was not enough to compensate for the upward adjustment in imports of goods.

The revised external accounts present a more accurate picture of the external transactions with a more reasonable estimate of flows in both the current account and financial account.

- ✍ Errors and omissions (net unclassified items) are lower as a result of the improvement in the BOP compilation methodology that provides for a better coverage and valuation of transactions.
- ✍ The BSP gross international reserves or the GIR in terms of import cover declines but is still above the international benchmark of 3 months.
- ✍ Debt service as a ratio of exports of goods, services, income (including workers' remittances under Current Transfers account) remained the same even after the adjustments. Only cash OFW remittances reflected under the income and current transfers that are coursed through the banking system are included to be more conservative and consistent with historical series.

Annex 4 shows both the old and new BOP series for 2003 while Annex 5 presents the BOP series for 2004 had there been no revisions. Annex 6 presents a summary of the affected BOP accounts, the statistical issues, nature of revision, and the methodology adopted to correct the statistical problem.

### ***Will the historical series be revised as well?***

In view of the above revisions in coverage, classification and methodology of estimation, BOP data prior to 2003 will be also be revised to make the series consistent and comparable. Data series from 1999 to 2002 is expected to be completed by end-May 2005 while earlier series by end-August 2005.

## NOTES ON THE REVISION OF IMPORT STATISTICS

### ***Background:***

In 2001, a thorough assessment of the quality of the BOP statistics was undertaken focusing on the size of the current account surplus that was not matched by acquisition of foreign assets, giving rise to large errors and omissions.<sup>1</sup> This was largely traced to the significant improvement in the trade balance with electronics industry as the driver of export growth but with no corresponding increase in its imported raw materials. This asymmetry was further reflected in the comparative study that showed the reported raw material value of electronics exports far exceeding imported raw materials. It is expected that these two variables closely approximate each other since electronics are highly import dependent. To address this issue, the BSP formed in June 2002 a Task Force that was later transformed into a Technical Working Group under the Inter-Agency Committee in Trade Statistics (IACTS) of the NSCB in May 2004.

### ***Activities and Findings of the IACTS***

The BSP and NSO conducted a joint import survey in 2002 to correct imports but the understatement was only partially addressed as NSO limited the correction to the sampled companies. Moreover, the survey suffered from poor quality of response from some companies so that parameters derived from the survey could not be used to correct subsequent reports. As the understatement of imports persists, the TWG continued to consult with SEIPI and electronics companies.

The Automated Export Data Documentation System (AEDS) trainings, which were initially intended to correct the problems of undercoverage and valuation of electronics exports, provided likewise an insight into the electronics industry as a whole and strengthened the initial findings in the previously held dialogues with the electronics industry. These findings are:

- ✍ The industry functioned largely under consigned arrangement/outsourcing in which manufacturing is limited to mostly assembly work and therefore local value added is relatively low. This value added, or the amount local companies charged to the foreign companies for assembly work, enters the local company books as its revenue. Note that f.o.b values of exports

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<sup>1</sup> An estimate of trade credit was later devised to account for net receivables from trade, which, due to its large amounts was not being reversed. IMF views this as part of errors and omissions.

and imports under consigned arrangements are not entered in the books of the local companies.<sup>2</sup>

- ✍ Some companies do not know the exact value of their consigned imports and have no urgent need to know since, as previously mentioned, these are off balance sheet items. In most cases, consigned import values which are dictated by the foreign companies are used by the importing companies only to comply with customs declaration.
- ✍ For big companies, declaration is done by brokers and forwarders who would not be in a position to report the true value of imports.
- ✍ Moreover, since consigned imports are non-dutiable, they are not subjected to thorough customs examination as dutiable goods, and therefore any error in valuation would not be corrected.

### ***Action to Address the Issue***

Given the above observations, it is unlikely that the present monitoring system that is purely dependent on documents — Import Entry and Internal Revenue Declaration (IEIRD) — collected by BOC will give a good measure of the true value of consigned imports. Hence, the IACTS proposed to estimate imports of consigned electronics using the raw material value obtained from exports declaration on electronics exports to bring about a realistic measure of the local value added content of electronics exports. NSO is now coordinating with the Bureau of Customs to ensure that all information needed will be generated to implement the methodology prospectively. Such coordination aims at strengthening the reporting system through the inclusion and the mandatory filling-up of the material value contents of exports in the Automated Exports Declaration System (AEDS) to support the data requirements of the proposed methodology.

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<sup>2</sup> Represent the market value of the goods exported/imported, excluding freight and insurance based on the export/import declaration documents from the Bureau of Customs (BOC).

**PRELIMINARY ADJUSTMENTS ON IMPORTS AND EXPORTS**

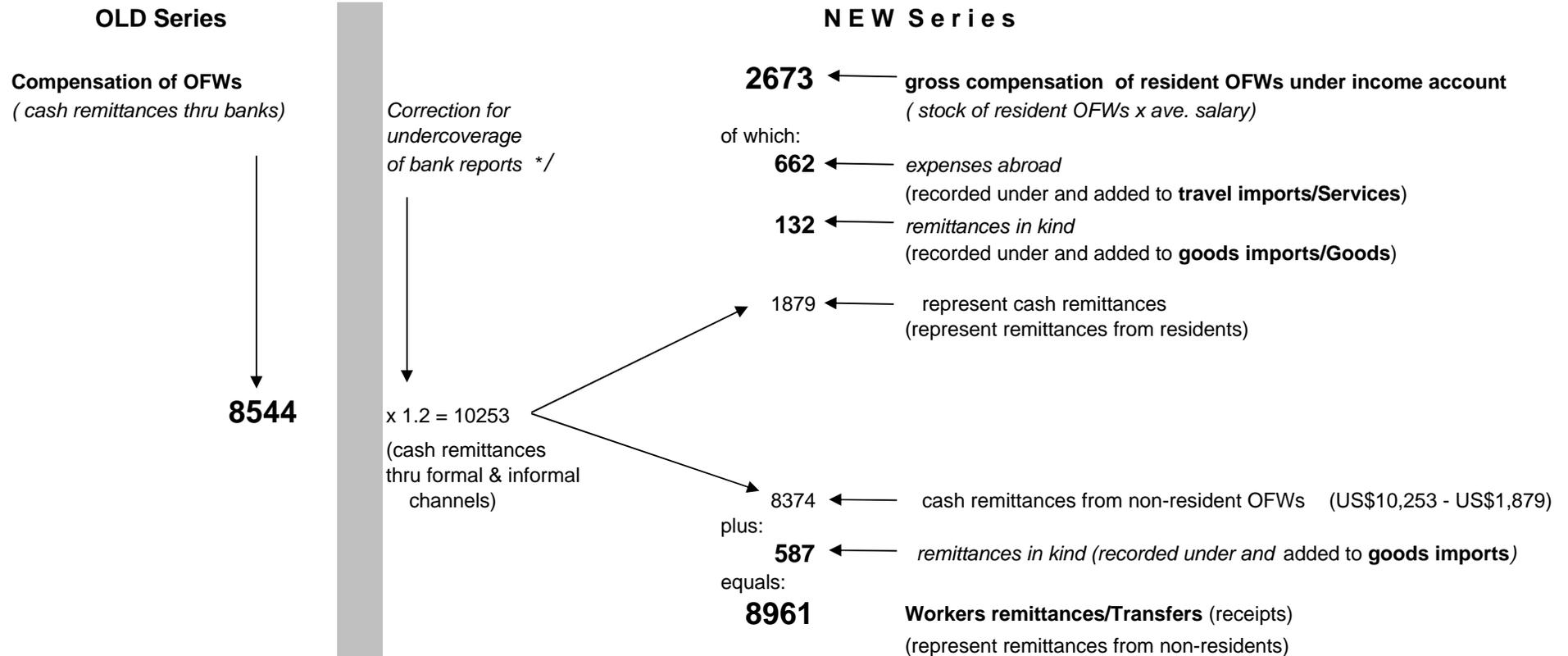
for periods indicated

in million US\$

	<b>2004</b>	<b>2003</b>
<b>EXPORTS</b>		
<b><u>NSO Data</u></b>	<b><u>39,599</u></b>	<b><u>36,230</u></b>
<i>add:</i> Undercoverage of tuna exports from Davao ports not covered by NSO	36	23
<i>less:</i> conceptual coverage (without change in ownership) <sup>1/</sup>	907	911
<b><u>BOP Export</u></b>	<b><u>38,728</u></b>	<b><u>35,342</u></b>
<b>IMPORTS</b>		
<b><u>OLD NSO DATA</u></b>	<b><u>40,300</u></b>	<b><u>37,497</u></b>
<i>add:</i> IAC adjustment on material value of consigned raw materials for electronics	4,422	3,252
<b><u>REVISED NSO</u></b>	<b><u>44,722</u></b>	<b><u>40,749</u></b>
<i>less:</i> conceptual coverage (without change in ownership) <sup>1/</sup>	441	689
<i>add:</i> Coverage adjustments	829	732
OFW remittances in kind	829	732
Other sources of undercoverage	718	651
tuna	111	81
Airline supply	8	1
Military hardware	77	51
	26	29
<b><u>BOP Import</u></b>	<b><u>45,110</u></b>	<b><u>40,792</u></b>

<sup>1/</sup> With the adoption of the Balance of Payments Manual, 5th Edition (BPM5), only goods that involved change in ownership are recorded in the BOP. Thus, goods for export are generally considered to change ownership when the exporter ceases to carry the goods on his books as a real asset and makes a corresponding change in his financial item. On the other hand, goods for import are considered to change ownership when the importer enters the goods in his books as a real asset and makes a corresponding change in his financial item. Examples of goods without change in ownership are goods temporarily exported/imported for exhibition purposes and returned goods.

**OFW-RELATED ACCOUNTS**  
in US\$ million



## Notes:

\*/ Undercoverage ratio based on results of NSO's Survey of Overseas Filipinos (SOF) for 2002 which showed 1.38 blowing-up factor. However, to reflect recent aggressive stance of KBs to tap remittances, this ratio was reduced to 1.25 in 2003 and 1.20 in 2004

- 1 resident OFWs - sebased, performing artists
- 2 nonres OFWs - other landbased
- 3 numbers highlighted (bold, larger font) represent entries in the BOP
- 4 cash remittances of OFWs are not readily identifiable in the BOP
  - a. for resident OFWs, transactions are recorded gross and cash remittances could only be derived as compensation (credit entry) less expenditures abroad (debit entry) less remittances in kind (debit entry)
  - b. for non-resident OFWs, workers' remittances also include remittances in-kind
- 5 estimates of remittances in kind are based on parameters derived from the results of SOF

**Annex 4**  
**Comparative Balance of Payments**  
**for periods indicated**  
**in million U.S. dollars**

	2003		Difference
	New	Old	
<b>Current Account</b>	<b>1,396</b>	<b>3,347</b>	<b>-1951</b>
<b>% of GDP</b>	<b>1.8</b>	<b>4.2</b>	
Goods and Services	-7,180	-2,480	-4700
Export	38,641	37,812	829
Import	45,821	40,292	5529
Goods	-5,455	-1,253	-4202
Credit: Exports	35,342	34,842	500
Debit: Imports	40,797	36,095	4702
Services	-1,725	-1,227	-498
Credit: Exports	3,299	2,970	329
Debit: Imports	5,024	4,197	827
Income	-226	5,215	-5441
Credit: Receipts	3,340	8,415	-5075
Debit: Disbursements	3,566	3,200	366
Current Transfers	8,802	612	8190
Credit: Receipts	9,009	682	8327
Debit: Disbursements	207	70	137
<b>Capital and Financial Account</b>	<b>-1,501</b>	<b>-5,319</b>	<b>3818</b>
Capital Account	23	21	2
Credit: Receipts	41	40	1
Debit: Disbursements	18	19	-1
Financial Account	-1,524	-5,340	3816
Direct Investment	150	161	-11
Debit: Assets, Residents' Investments Abroad	197	158	39
Credit: Liabilities, Non-Residents' Investments in the Phil.	347	319	28
Portfolio Investment	-1,305	-706	-599
Debit: Assets, Residents' Investments Abroad	1,458	1,586	-128
Credit: Liabilities, Non-Residents' Investments in the Phil.	153	880	-727
Financial Derivatives	-64	0	-64
Debit: Assets, Residents' Investments Abroad	-54	0	-54
Credit: Liabilities, Non-Residents' Investments in the Phil.	-118	0	-118
Other Investment	-305	-4,795	4490
Debit: Assets, Residents' Investments Abroad	-737	13,307	-14044
Credit: Liabilities, Non-Residents' Investments in the Phil.	-1,042	8,512	-9554
Net Unclassified Items	220	2,087	-1867
% of Total Trade	0.3	2.9	
<b>Overall BOP Position</b>	<b>115</b>	<b>115</b>	<b>0</b>

Technical Notes:

1. Net balances in the current and capital and financial accounts are derived by deducting debit entries from credit entries.
2. Overall BOP position is determined by deducting change in reserve liabilities from change in reserve assets.
3. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1.
5. Basic balance represents a BOP position that excludes transactions that are volatile and are in the short run susceptible to being reversed. It is derived using the following formula: Overall BOP position less (Net portfolio investments + net short-term liabilities) less errors and omissions. In the old BOP series, all transactions in assets and liabilities of commercial banks were deemed to be long-term. With the refinements in the new series on the maturity structure of KBs' transactions, short-term financial transactions of KBs are now excluded from the basic balance.

Source: Bangko Sentral ng Pilipinas

**Annex 5**  
**Comparative Balance of Payments for Selected Accounts**  
**for periods indicated**  
**in million U.S. dollars**

	2004		Difference
	After Adj.	Before Adj.	
<b>Current Account</b>	<b>2,080</b>	<b>5,363</b>	<b>-3283</b>
<b>% of GDP</b>	<b>2.4</b>	<b>6.2</b>	
Goods and Services	-7,663	-1,395	-6268
Goods	-6,381	-411	-5970
Credit: Exports	38,728	38,780	-52
Debit: Imports	45,109	39,191	5918
Services	-1,282	-984	-298
Income	147	6,191	-6044
Current Transfers	9,596	567	9029
<b>Capital and Financial Account</b>	<b>-1,692</b>	<b>-3,166</b>	<b>1474</b>
Financial Account	-1,669	-3,143	1474
Direct Investment	57	459	-402
Portfolio Investment	-1,434	-450	-984
Other Investment	-265	-3,152	2887
Net Unclassified Items	-668	-2,477	1809
% of Total Trade	-0.8	-3.2	
<b>Overall BOP Position</b>	<b>-280</b>	<b>-280</b>	<b>0</b>

Technical Notes:

1. Net balances in the current and capital and financial accounts are derived by deducting debit entries from credit entries.
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3. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1.
5. Basic balance represents a BOP position that excludes transactions that are volatile and are in the short run susceptible to being reversed. It is derived using the following formula: Overall BOP position less (Net portfolio investments + net short-term liabilities) less errors and omissions. In the old BOP series, all transactions in assets and liabilities of commercial banks were deemed to be long-term. With the refinements in the new series on the maturity structure of KBs' transactions, short-term financial transactions of KBs are now excluded from the basic balance.

Source: Bangko Sentral ng Pilipinas

ACCOUNTS	ISSUE			NATURE OF REVISION	METHODOLOGY TO CORRECT PROBLEM
	Coverage	Classification	Others		
<b>I Current Account</b>					
<b>A Trade in Goods</b>					
1. Exports	✍			Expanded coverage	To include exports of tuna on high seas
2. Imports	✍			Expanded Coverage to include those not captured in NSO's reports	To include: a) OFW remittances in kind b) purchases of local airlines in foreign c) tuna imports in high seas
	✍			Valuation adjustment	To correct the understatement of consigned imported raw materials for electronics exports based on the proposed methodology of the IAC on Trade Statistics
<b>B. Trade in Services</b>					
1. Passenger					
Exports	✍			Expanded coverage	To include ticket sales of local airlines deposited in bank accounts abroad
Imports			✍	Change in database	To replace FX form 1 with reports of the Civil Aeronautics Board (CAB) on receipts of foreign airlines.
2. Travel					
Exports	✍			Expanded coverage	To include expenditures in the Phils of non-resident OFWs during home visits ( in addition to expenditures of foreign tourists in the Philippines)
Imports	✍			Expanded coverage	To include expenditures abroad of resident OFWs for their maintenance abroad (in addition to expenditures abroad of resident tourists)
3. Other business services					
Operational leasing					
Imports	✍			Expanded coverage	To include aircraft rental by local airlines- data base on Cross Border Transaction survey
Misc. bus., prof., or tech.					
Exports	✍			Expanded coverage	To include foreign airlines rental and office maintenance (CAB)
Imports	✍	✍	✍	Reclassification of the account from government services and change in database	To cover estimates of foreign embassies' expenditures in the Philippines based on benchmark survey of embassies, replacing FX Form 1 report
Imports	✍			Expanded coverage	To include consultancy services To include OECD data on technical assistance (contra-entry in Current Transfers, General Govt.)
4. Government services					
Exports		✍		Reclassification of the account to miscellaneous services	(See notes on miscellaneous services)
Imports			✍	Change in coverage	To replace FX Form1 report with Department of Foreign Affairs' budget for diplomatic and consular offices abroad
<b>C. Income</b>					
1. Compensation of employees	✍	✍	✍	Change in coverage to include only resident OFWs	to cover earnings of seabased workers and entertainers whether remitted or not
2. Investment Income					
Direct Investment Income					
Income on equity					
Disbursements	✍			Expanded coverage	To include remittances of BSP-registered FDI which were not covered in FX Form 1
<b>D. Current Transfers</b>					
1. General Government					
Receipts	✍			Expanded coverage	To include USAID grants, OECD and other foreign grants
2. Workers' Remittances	✍	✍	✍	Change in coverage to cover non-resident OFWs	To include remittances in cash and in kind

ACCOUNTS	ISSUE			NATURE OF REVISION	METHODOLOGY TO CORRECT PROBLEM
	Coverage	Classification	Others		
<b>II Capital Account</b>					
<b>III Financial Account</b>					
<b>A. Direct Investment</b> Assets: Equity capital Placements	⌘			Expanded coverage	To include estimates of investments abroad by local companies based on media reports
		⌘		Reclassification	To reclassify banks' investment abroad from other capital to equity capital
Other Capital		⌘		Reclassification	(See notes on equity capital)
Liabilities: Equity capital Placements	⌘			Expanded coverage	To include data from registration records not reported in FX Form 1 To include FDI in local banks not covered in Monetary Statistics
Reinvested earnings	⌘			Expanded coverage	To include reinvested earnings in local banks
Other capital Claims on direct investors	⌘			Expanded coverage	To include trade credits with affiliated companies
<b>B. Portfolio Investment</b> Assets: Equity Securities		⌘		Reclassification to reconcile with Coordinated Portfolio Investment Survey (CPIS)	To adopt CPIS levels by reclassifying a portion from Bonds and Notes to Equity Securities
Debt Securities Bonds and Notes		⌘		Reclassification to reconcile with CPIS	To adopt CPIS levels by reclassifying portions of previous reported bonds and notes to Equity securities, money market instruments
Money Market Instruments		⌘		Reclassification to reconcile with CPIS	To adopt CPIS levels by reclassifying a portion of previously reported bonds and notes to money market instruments
Liabilities: Equity securities					
Banks	⌘			Expanded coverage	To include Portfolio Investment in local banks not previously recorded
Debt Securities					
Other sectors	⌘			Expanded coverage	To include net resale(purchase) of Phil Debt Paper holdings of trust dept of banks, insurance companies, pension funds and other non-banks. Previous estimates covered BSP and banks only.
<b>C. Financial Derivatives</b>			⌘	New account	To cover settlement of banks' financial derivatives
<b>D. Other Investment</b> Assets: Trade credits Other sectors					
Short-term	⌘	⌘	⌘	Change in coverage, new methodology, and new database	To cover trade receivables from non-affiliates only; previous estimates included receivables from affiliates which are now covered under direct investment Data based on CBTS; previously a derived estimate based on NSO exports data and FX Form 1 exports receipts data
Currency & deposits Banks		⌘	⌘	Reconciliation with data of Bank for International Settlements (BIS)	Reclassified over/understatement of adjustments from Portfolio Inv. to Loans-banks
Other sectors			⌘	Additional database	Bank for International Settlement(BIS) report for final data; FX Form1 & CBTS for preliminary data
Loans Banks			⌘	Reconciliation with BIS data	Residual estimates after reclassification of a portion to currency and deposits
Liabilities: Trade credits Other sectors					
Long-term	⌘	⌘	⌘	Change in coverage, new methodology, and new database	To cover trade payables to non-affiliates only; previously included payables to affiliates which are now covered under direct investment External debt data on suppliers credit and CBTS data on trade payables; previously combined with short-term and derived from NSO imports data and FX Form 1 data on import payments
Short-term			⌘	New database	(See notes above)