

1. *What is the Balance of Payments (BOP)?*

The Balance of Payments (BOP) is a summary of the economic transactions of a country with the rest of the world for a specific period. It serves as an accounting statement on the economic dealings between residents of the country and non-residents.

2. *Who are the residents of the country?*

Nationality is not a basis for determining an individual's country of residence. A person is considered a resident of a country when he has stayed or intends to stay in that country for one year or more. Thus, an Overseas Filipino (OF) can remain a resident of the Philippines or can become a non-resident depending on the length of the job contract abroad.

Similarly, a business enterprise is considered a resident of a country if it engages, for a year or more, in the production of goods or services in a significant scale in that country. Branches and subsidiaries of foreign companies are treated as residents of countries where they operate their business. However, a liaison or a representative office of a foreign company, regardless of the length of its stay, does not qualify as a resident enterprise. Its presence in a country is not for operating a business but only for providing auxiliary services to the parent company. It remains as an integral part of the foreign parent's operations and thus, is treated as a non-resident where it is located.

Government instrumentalities like embassies, consulates, and military establishments stationed abroad remain as residents of the country they represent.

3. *What economic transactions are engaged in by residents of a country with non-residents?*

Economic transactions are grouped into three major categories: (1) current account, (2) capital account, and (3) financial account.

4. *What are current account transactions?*

The current account covers trade in goods, services, primary income, and secondary income.

Trade in goods—exports and imports—is the first component of the current account. The country's exports include manufactures (such as electronics), mineral products, and agricultural products. Meanwhile, imports consist of raw materials and intermediate goods, mineral fuels and lubricant, capital and consumer goods.

Trade in services is another component of the current account. Technical, trade-related and other business services form part of the country's exports of services. These comprised largely of business process outsourcing (BPO) services. . Other service transactions with the rest of the world include exports of services on

physical inputs owned by others in manufacturing, transport, travel, telecommunication services, construction, insurance and pension, financial, charges for the use of intellectual property, other business, personal, cultural and recreational, and government services.

The primary income sub-account records as receipts earnings of resident OF workers, as well as the profit of Philippine investments abroad.¹ Disbursements include interest payments to foreign creditors.

Remittances of non-resident OFs are lodged under the secondary income sub-account together with other current transfers such as gifts, grants and donations to and from abroad. Current transfers can be in cash and in kind.²

5. *What does the Current Account Balance signify?*

When total exports/receipts exceed total imports/payments, the current account is in surplus. It is in deficit if the reverse is observed.

If the current account balance is in surplus, the country is a “net lender” to the rest of the world in the amount of the surplus or the excess in the current account transactions. Net lending occurs when the national saving is more than the country’s investment in real assets. If in deficit, the country is said to be a “user of funds” and thus, is considered as net borrower from abroad in order to fill in the shortage. In this case, the country invested more than what its national saving can finance.

6. *What are the transactions in the capital account?*

The capital account consists of capital transfers and acquisition and disposal of nonproduced, nonfinancial assets between residents and nonresidents. This also includes grants and donations, the intention of which is for investment (i.e., machinery and equipment, buildings and structures). This is in contrast with grants and donations lodged under secondary income which are intended for consumption (i.e. food, clothing, supplies and materials).

7. *What are the transactions in the financial account?*

The financial account consists of direct investments, portfolio investments and other forms of investment.

Direct investment refers to capital participation in a company in which the investor has a significant degree of influence on management of the company. By convention, this is manifested by ownership of at least ten percent of the company’s equity.

¹ Earnings of OFs whose job contracts do not exceed one year are categorized under the primary income sub-account.

² Remittances of OFs whose work contracts are for one year or more as well as those coming from migrants are classified as secondary income.

Portfolio investment is usually referred to as “hot money” since the investor’s motive is short-term as opposed to a direct investor’s significant degree of influence in a company. A portfolio investor will buy or sell a financial instrument at anytime there is an indication of immediate gain or loss.

Portfolio holdings may be in the form of stocks, bonds and notes, and money market instruments, which are tradable in the market and thus can easily be acquired or disposed of. In the case of stockholdings, a portfolio investor is differentiated from a direct investor if he owns less than ten percent of a company’s total equity.

Other forms of investments are financial derivatives, loans (trade and non-trade), holdings of currency and deposits, and other investments.

8. *What are international reserves? Who holds or manages the country’s international reserves?*

International reserves, technically referred to as Gross International Reserves (GIR), are foreign assets of the Bangko Sentral ng Pilipinas (BSP) held mostly as investments in foreign-issued securities, monetary gold, and foreign exchange. These are supplemented by claims to the International Monetary Fund (IMF) in the form of Reserve Position in the Fund and Special Drawing Rights.

Being the lender of last resort, the BSP holds international reserves for the foreign exchange (FX) requirements of the country in case the supply of FX from domestic commercial banks falls short of the total demand. As the term connotes, GIR serves as stand-by fund to finance the deficit that may arise from the combined current and capital and financial transactions. Consequently, financing the deficit reduces the level of reserves. On the other hand, the BSP builds up its international reserves by the amount of the net inflow of foreign exchange resulting from surpluses in external transactions.

International reserves can also be measured on a net basis. Net International Reserves (NIR) can be derived by deducting from the GIR the BSP’s short-term foreign liabilities and borrowings from the IMF.

9. *Is there an ideal level of GIR which the BSP has to maintain?*

Due to its intended use, the GIR should be adequate enough to cover external payments on the assumption that no other source of foreign exchange could be tapped. In extreme conditions when there are no export earnings or foreign loans, the GIR should be able to pay for the country’s most immediate obligations— imports and debt service. By convention, GIR is viewed to be adequate if it can finance at least three-months’ worth of the country’s imports of goods and payments of services and primary income. Another indicator of reserve adequacy is for the level of GIR, as of a particular period, to at least provide 100 percent cover for the

payment of the country's foreign liabilities, public and private, falling due within the immediate twelve-month period.

10. What is the currency composition of the country's GIR?

In terms of currency composition, the country's GIR (excluding gold) are held in U.S. Dollars, Japanese Yen, Euros and other foreign currencies. Historical data show that the bulk of the BSP's GIR (excluding gold) has been consistently held in U.S. Dollars.

11. What is the overall BOP position? What are Net Unclassified Items?

The overall BOP position is a summary measure of the performance of the country's external transactions. This can be estimated using two approaches:

- the change in net international reserves due to transactions, or
- the sum of the balances of the Current Account and Capital Account, less the balance of the Financial Account (excluding assets/liabilities of the BSP)

Net inflows in the current and capital accounts are denoted in positive terms. By contrast, net inflows in the financial account are presented as a negative balance using the "assets (outflows) less liabilities (inflows)" approach under the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). The balance in the financial account is therefore deducted from the sum of the current and capital account balances to arrive at the overall BOP position.

In practice, the two methods for computing the overall BOP position do not yield the same results due to data limitations particularly in the second approach. The discrepancy between the two approaches is termed as "Net Unclassified Items" or "errors and omissions". Since the level of international reserves is based on a more rigid book accounting, the overall BOP position is determined by the first approach.

Thus, to maintain the equality of the two approaches, the following equation is adopted in the BOP:

$$\begin{aligned} & \text{Current Account Balance} \\ + & \text{Capital Account Balance} \\ - & \text{Financial Account Balance} \\ + & \text{Net Unclassified Items} \\ = & \text{Overall BOP Position} \\ = & \text{Change in NIR due to transactions} \end{aligned}$$

The compilers refer to the first four items as "above the line" and the change in NIR as "below the line".

12. *What is the International Investment Position (IIP)? How does it compare with the BOP?*

The IIP is a companion framework to the BOP statistics. The BOP is a flow estimate since it records transactions within a given period. Meanwhile, the IIP is a stock estimate as it records the country's foreign financial assets and foreign financial liabilities outstanding as of a certain period. The stock is the result of all the past flows plus adjustments such as exchange rate movements to account for the value of the financial asset/liability as of date of reporting.

13. *What are the main components of the IIP?*

The IIP links with the financial account in the BOP. Similar to the BOP, the accounts in the IIP are direct investments, portfolio investments, financial derivatives, and other investments. Assets and liabilities are presented separately. International reserves also form part of the country's assets.

14. *What does the IIP measure?*

The balance in the IIP, that is, assets less liabilities or the Net IIP, measures the country's financial standing with the rest of the world. A net asset position reflects net *claims* of residents on non-residents and thus may indicate some degree of stability.

Meanwhile, a net liability position reflects net exposure of residents to non-residents and thus to some extent, vulnerability. However, the quality of foreign liabilities is a major consideration in determining vulnerability. If foreign direct investments and long-term loans dominate the liability side, a country's net liability position may not be of immediate great concern.

15. *What are the uses of the BOP and IIP?*

The BOP and IIP are important tools for national and international policy formulation as countries have increasingly become interdependent. Policymakers are guided by the analysis of sources of imbalances as presented in the BOP and IIP and therefore become better equipped in determining and implementing adjustment measures. For instance, the deficit in the current account may have stemmed from lower exports of goods compared to imports. Given this scenario, national development programs could be directed towards increasing the competitiveness of local products in the global market and/or developing new industries that will produce import substitutes.

The use of the BOP and IIP is enhanced when taken together as they provide a glimpse of the relationship between flows and stocks. One example is the link between trade in goods and direct investments, as this would reveal how dependent export earning potential is on foreign capital and technology. In another instance,

external debt problems may be traced to chronic current account deficits. Likewise, links are established between exchange rates and the strength or weakness of the current and financial accounts.

16. *How often are these statistics compiled?*

The BOP is compiled quarterly but with a monthly breakdown. It is released to the public electronically, i.e., via the BSP's website within eleven (11) weeks from the end of the reference quarter accompanied by a press release.

Starting September 2014, the IIP is compiled and disseminated on a quarterly basis in compliance with the IMF's recommendation of enhancing the Special Data Dissemination Standard (SDDS) to improve the availability and timeliness of compiling and disseminating IIP data. It is likewise released to the public electronically within three (3) months from the end of the reference quarter accompanied by a press release.

Meanwhile, data on international reserves (IR) are published monthly to the public in the BSP's website. The preliminary end-month IR data are released every 7th day of the month (or the working day before the 7th day of the month if it falls on a weekend or is a non-working holiday). The international reserves and foreign currency liquidity template data are released within one month after the end of the reference month.

17. *How often are these statistics revised?*

Data on all BOP/IIP components released to the public during the reference quarter are treated as preliminary, and may be revised in any quarter of the reference year. Prior year's data may be revised coinciding with the release of the second quarter report in September of the current year and the fourth quarter report in March of the succeeding year. Historical revisions are carried out in case of significant changes arising from the introduction of new classifications, compilation frameworks and methodologies.

The revised or final end-month IR data are released every 19th day of the month (or the nearest working day to the 19th if this falls on a weekend or is a non-working holiday).

18. *What guidelines are used in compiling the BOP and IIP statistics?*

The International Monetary Fund (IMF) recommends the use of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) as the standard framework for compiling statistics on BOP and IIP. The IMF introduced the revised edition in 2008 and recommends that countries fully adopt the new framework by 2014. The BSP has started the implementation of the BPM6 framework in March 2013 with the release of the full-year 2012 Balance of Payments (BOP) report. In March 2014, the BSP fully implemented the shift of the BOP compilation to BPM6 framework in compliance with the recommendations set

out in the BOP manual. Meanwhile, the compilation of IIP data based on BPM6 framework was completed last September 2014 with the simultaneous release of the quarterly IIP data as of end-March 2013 to end-June 2014. Following the implementation of the BPM6 compilation framework, the BSP released the backtracked BOP monthly data series from 2005-2010 (with accompanying technical notes) in the BSP website in March 2014. Apart from the conversion to BPM6 format, the revisions to the backtracked BOP data series mainly reflected the use of new data sources and estimation methodologies to generate more accurate and reliable BOP statistics. Meanwhile, backtracked IIP data series (annual 2006-2012) and (quarterly 2013) were posted in the BSP website in September 2014. The BSP provides more information on the shift in the framework through the primer and BSP economic newsletter published at the BSP website. The BSP also conducts several information dissemination activities on BPM6 for BOP data users.

19. *What were the revisions to the BOP and IIP when BSP adopted BPM6?*

The shift to BPM6 entailed various changes including the adoption of the institutional sector classification based on the System of National Accounts (SNA) and revision of statistical treatment and coverage of some international accounts.

The details of these changes are presented in a [separate primer](#).

20. *Do other countries compile BOP and IIP?*

Most countries compile the BOP and IIP because of their importance to national planning. For international comparability, the IMF has set guidelines on the compilation of these statistics which member countries are encouraged to comply with. Countries subscribing to the IMF Special Data Dissemination Standard (SDDS) are mostly compiling their respective BOP and IIP statistics based on BPM5 and BPM6. Meanwhile, not all countries subscribing to the IMF General Data Dissemination Standard (GDDS) are strictly complying with the prescribed frameworks. Compilation manuals undergo periodic updating to keep abreast with the developments in the market. As a consequence, data series are likewise subjected to revisions to conform to the latest manual.