

Technical Notes on the Revisions of Balance of Payments (BOP) Statistics

The full-year 2004 Balance of Payments (BOP) Developments Report, which was disseminated to the public on 30 March 2005, reflected major revisions in BOP statistics. The revisions in the BOP statistics, which were done also for comparable 2003 data, are in line with the continuing efforts of the BOP 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 accounts and the international investment position statistics thereby provide more meaningful and firmer basis for analyses and policy formulation.

The revisions involved 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 Development Authority (NEDA), the National Statistics Office (NSO), the National Statistical Coordination Board (NSCB), the Bureau of Customs (BOC), the Philippine Economic Zone Authority (PEZA) and the Bangko Sentral ng Pilipinas (BSP).

The major accounts affected by the revisions include:

✍ Exports and Imports of Goods

- 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

- Inclusion in imports of remittances by overseas Filipino workers (OFWs) sent in-kind and goods for military use to correct undercoverage

✍ OFW-related accounts

- 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: a) land-based workers 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, resident OFWs' 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 contracts of one year or more (i.e., other land-based workers excluding performing artists). Remittances of non-resident OFWs are shown as workers' 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.

The Implications of the BOP revisions are as follows:

- ✍ The revisions will not affect the overall BOP position as it continues to be measured by the change in the BSP net international reserves that are attributed to transactions. 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.