BALANCE OF PAYMENTS

The Bangko Sentral ng Pilipinas (BSP) uses the Balance of Payments and International Investment Position Manual, 6th edition (BPM6) as the standard framework for compiling statistics on Balance of Payments (BOP) and International Investment Position (IIP). Compliance to this international framework developed by the International Monetary Fund (IMF) allows comparability of the country's BOP statistics with other IMF-member countries. Definition of terms are provided below based on this framework.

Balance of Payments (BOP) is a summary of the economic transactions of a country between residents and non-residents during a period. It consists of the current account, the capital account, and the financial account.

Current Account consists of transactions in goods, services, primary income and secondary income. This account measures the net transfer of real resources between the domestic economy and the rest of the world.

Goods are physical, produced items over which ownership rights can be established and whose economic ownership can be passed from one institutional unit to another by engaging in transactions. The balance on trade-in-goods covers general merchandise, net exports of goods under merchanting, and non-monetary gold.

Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. This account covers twelve services transactions: manufacturing services on physical inputs owned by others; maintenance and repair services n.i.e.; transport services; travel services; construction; insurance and pension services; financial services; charges for the use of intellectual property n.i.e.; telecommunications, computer, and information services; other business services; personal, cultural, and recreational services; and, government goods and services n.i.e.

Primary Income Account shows flows for the use of labor and financial resources between resident and non-resident institutional units. Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units. The main types of primary income are: a) compensation of employees; b) dividends; c) reinvested earnings; d) interest; e) investment income attributable to policyholders in insurance, standardized guarantees, and pension funds; f) rent; and g) taxes and subsidies on products and production.

Secondary Income Account shows current transfers between residents and non-residents. These are receipts or provisions in cash or in kind for nothing in return. Current transfers are classified into personal transfers and other current transfers. **Personal transfers** consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. **Other current transfers** include a) current taxes on income, wealth;

b) social contributions; c) social benefits; d) net nonlife insurance premiums; e) nonlife insurance claims; f) current international cooperation; and g) miscellaneous current transfers.

Capital Account covers capital transfers receivable and payable, and acquisition and disposal of non-produced, non-financial assets between residents and non-residents. Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Migrants' transfers, or the personal effects as well as financial assets and liabilities of persons changing residence, are excluded from capital transfers as the change of a person's residence is not a transaction.

Financial Account records transactions that involve financial assets and liabilities between residents and non-residents. The functional categories under the financial account are organized according to whether the investment relates to an asset or liability. Debit/asset entries refer to net acquisition of financial assets (NAFA) and credit/liability entries refer to net incurrence of liabilities (NIL). Net balance is presented in terms of net lending (+) / net borrowing (-). When the net acquisition of financial assets is larger than the net incurrence of liabilities, then the financial account balance would be a net lending, and vice-versa.

Direct investment is a category of cross border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is a resident in another economy. Operationally, direct investment in an enterprise is indicated by ownership of at least 10 percent of equity shares. Less than 10 percent ownership is considered as portfolio investments. Direct investments can be in the form of equity capital, reinvestment of earnings and debt instruments.

Portfolio Investments are defined as cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. This investment category covers transactions in equity in which the investor holds less than 10 percent of the total equity of an enterprise. Also included in this account are sale and purchase of debt.

Other Investments is a residual category that includes positions and transactions other than those included in direct investments, portfolio investments, financial derivatives and employee stock options, and reserve assets. To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes: a) other equity; b) currency and deposits; c) loans (including use of IMF credit and loans from the IMF); d) nonlife insurance technical reserves, life insurance and annuities entitlements, pension entitlements, and provisions for calls under standardized guarantees; e) trade credit and advances; f) other accounts receivable/payable; and g) SDR allocations (SDR holdings are included in reserve assets).

Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in

exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).

Net Unclassified Items (or errors and omissions) is an offsetting account to bring the above-the-line and below-the-line items of the BOP equation into balance. Discrepancy arises because data sources are inadequate or inconsistent with one another in terms of coverage, time of recording and valuation. A positive discrepancy denotes an understatement of inflows and/or an overstatement of outflows. Conversely, a negative entry denotes an overstatement of inflows and/or understatement of outflows.

Prior to the implementation of BPM6, the Balance of Payments Manual, 5th Edition (BPM5) was adopted covering data from 1999 to 2004. BOP data earlier than 1999 were based on the National Presentation.