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The BSP's Shift to BPM6: What's in Store for Data Users

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By June 2012, users of Balance of Payments (BOP) and International Investment Position (IIP) data can expect some changes in the statistical reports that the Bangko Sentral ng Pilipinas (BSP) generates. This is consistent with international best practice of implementing the Balance of Payments Manual, 6th edition (BPM6), as revised by the International Monetary Fund (IMF) in 2008. The BSP currently adheres with the BPM5 guidelines which were in place since 2000. For the Department of Economic Statistics (DES), therefore, the most frequently asked question at the moment is: "What are the significant changes in BPM6?"

Emerging Themes

To fully appreciate the specific BPM6 changes, the IMF identified three general thematic trends that have motivated the revisions to the manual. These themes are as follows:

1. Globalization. – This pertains to the expanding relationships among individuals and firms in two or more economies, and the international economic arrangements that economies have increasingly undertaken. The changes have markedly emphasized growing interest in the residence concept to disclose more information on migrant workers and remittance flows, as well as global production processes such as outsourcing and merchanting among economies;

2. Balance sheet analysis. – To better understand global economic developments in the context of vulnerability and sustainability, the new Manual designed a more elaborate classification of financial instruments to facilitate consistency and linkages with other statistical frameworks, such as the System of National Accounts (SNA) and the Monetary and Financial Statistics (MFS). The Manual also provided more focus on the IIP, including revaluations and other volume changes, and how they affect the values of assets and liabilities; and

3. Financial innovation. – BPM6 recognizes the growth of new financial instruments, e.g., securitization, index-linked securities, and unallocated gold accounts, as well as recent institutional arrangements such as special purpose entities, complex chains of ownership, and multi-economy corporate structures. The BPM6 Manual adopted revised guidelines on insurance and other financial services, and addressed compilation issues on loan impairments, debt reorganization, guarantees, and write-offs.

BPM6 Issues for the BSP

- Special Drawing Rights (SDR) Allocation[2]

The SDR is an international reserve asset created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries, in proportion to their IMF quotas, and were made available by the IMF to its members, including the Philippines. The first step for IMF member-countries was to adopt the revised treatment of the allocation of SDRs in the various statistics it compiles and monitors. This revised treatment was reflected starting September 2010 in the various statistics generated by the BSP, namely, the BOP, IIP, as well as the External Debt Statistics (EDS), and MFS. The revisions pertained to the Philippines' total share of the IMF's SDR allocations amounting to SDR721.4 million or approximately US$1.126 billion, including the general and special allocations received in August and September 2009, amounting to SDR652.3 million (or equivalent to

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[2] BSP press release, "BSP adopts revised treatment of SDRs in statistical reports," 23 September 2010, BSP website

US$1,016.9 million) and SDR69.1 million (or US$108.79 million), respectively. This formed part of the US$283 billion in SDRs injected by the IMF into the global economy in 2009 to boost members' existing reserve assets and provide liquidity to the global economic system during the global financial crisis.

Prior to the adoption of the revised treatment, SDR allocation under the BPM5 was considered a non-transaction item. Transactions are economic flows that result in the creation, transformation, exchange, transfer, or extinction of economic value, and involve changes in ownership of goods and/or financial assets, the provision of services, or the provision of labor and capital. As the BOP is a summary of the economic transactions of an economy with the rest of the world for a given period, SDR allocations—being non-transaction items–were not recorded in the BOP. Therefore, the SDR allocation did not have any impact on the BOP position. SDR allocation also had no impact on the country's external debt as it was not treated as a liability. Meanwhile, SDRs raised the country's IIP because it resulted in an increase in reserve assets (or the gross international reserves).

With the implementation of the BPM6, the SDR allocation was treated as a transaction, particularly as a long-term liability of the monetary authority. As a result, the 2009 BOP position increased by the total amount of the SDR allocation, or US$1.1 billion. As the SDR allocation is treated as a liability, the country's external debt rose by the same amount. However, there was no impact on the net IIP for 2009 due to the offsetting entries in both the asset and liability sides.

The revised treatment of the allocation of SDRs has no appreciable effect on the country's external sector indicators. While the stock of external debt was higher by US$1.1 billion as of end-December 2009, the ratio of external debt to gross national product and to gross domestic product increased only by 0.7 percentage points and 0.8 percentage points, respectively. Similarly, the impact of interest payments on the debt service ratio was negligible.

The BSP has thus already adopted the revised treatment of the SDR allocation in the Q2 2010 BOP data, the Q2 2010 External Debt, and end-2009 IIP data, which were disseminated on prescribed release dates in September 2010.

- Other Changes from BPM5[3]

The following are the major revisions that the BSP will implement in June 2012 onwards:

a. Reclassifying the international accounts and underlying transactions – The Manual adopts a condensed version of the SNA institutional sector classification for the BOP standard components. BPM6 classifies the international accounts into four major institutional sectors: central bank, deposit-taking corporations except the central bank, general government, and other sectors (Table 1).

Table 1. Classification of Institutional Sectors

BPM5	BPM6
Monetary Authorities	Central Bank
Banks	Deposit-taking corporations except the central bank*
General Government	General government
Other Sectors	Other sectors Other financial corporations* – including money market funds (MMF), non-MMF investment funds, other financial intermediaries except insurance corporations and pension funds, financial auxiliaries, captive institutions and money lenders, insurance corporations, pension funds Nonfinancial corporations, households, and NPISHs (nonprofit institutions serving households; may be combined with households)* Additional sectors for counterpart data: International organizations International financial organizations Central bank of currency union Other international organizations

*Public corporations may be shown as "of which" items for the financial and non-financial corporations sectors sub-sectors as *supplementary items*, when relevant.

b. Revising statistical treatment of some international accounts – Given the inputs from technical expert groups and compilers across countries, the new Manual revised the treatment of several transactions in the BOP and IIP statistics. Some of the major changes are compared between the statistical treatment under BPM5 and the now prescribed BPM6 (Table 2).

[3] Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), International Monetary Fund, 2009

Table 2. Comparison of Major BPM6 Revisions

International Account	Current Treatment under BPM5	Prescribed Treatment under BPM6
Current Account		
1. Goods	Goods for processing (such as goods imported or exported on consignment basis) and repair are included in the goods category.	Goods for processing and repair are excluded; these items are recorded under services.
2. Services	Categories of trade in services include: transportation; travel; communication services; construction services; insurance services; financial; computer and information services; royalties and license fees; other business services; personal, cultural and recreational services; and government services not included elsewhere (n.i.e.). The services category also includes merchanting and other trade-related services.	- An expanded classification of services was introduced, with categories mainly product-based (i.e., classified according to the type of service), except for travel, construction, and government goods and services n.i.e., which are transactor-based (i.e., classified according to the unit that provides the service). - Merchanting and other trade-related services are excluded; these items are recorded under goods. - The Manual also renamed some accounts, e.g., manufacturing services on physical inputs owned by others (to replace goods for processing) and charges for the use of intellectual property n.i.e. (formerly royalties and license fees). - Financial intermediation service charges indirectly measured (FISIM), pertaining to implicit margins between interest payable and the reference rate on loans and deposits, are now part of financial services. - A new grouping of telecommunications, computer, and information services was also introduced in the Manual, to include a range of relevant services.
3. Income	Currently classified into compensation of employees including border, seasonal, and other workers; and investment income. Rent is included in other investment income, while taxes and subsidies are included in current transfers.	Account name was changed to *Primary Income*, to harmonize the BPM6 account with its SNA terminology. A sub-account, *other primary income*, was also introduced, consisting of rent, taxes and subsidies on products and production.
4.Current Transfers	Current categories include workers' remittances and other transfers.	Account name was changed to ***Secondary Income***, to harmonize the account with the SNA. The Manual introduces a broader term, personal transfers, of which workers' remittances are a subset of. Briefly defined, personal transfers comprise all current transfers in cash or in kind sent or received by resident households to or from nonresident households.[4] Workers' remittances are now presented as a supplementary item. The Manual also illustrates three categories of remittances from the viewpoint of the recipient economy, i.e., personal remittances, total remittances, and total remittances and transfers to NPISHs (Figure 1).
Capital Account	Consists of capital transfers in the form of migrants' transfers, debt forgiveness, and other non-current transfers, as well as acquisition/disposal of non-produced, non-financial assets.	Migrants' transfers are now excluded from capital transfers in the BOP as the change in residence does not involve a transaction between two entities, but a change in the status of a single entity. These migrants' transfers, however, are recorded as other flows/adjustments in the IIP. Patents and copyrights, which were previously treated as non-produced assets in the capital account, are now classified as produced assets under specific services, e.g., research and development.

Figure 1. BPM6 Definitions of Remittances

Total remittances and transfers to NPISHs: a+b+c+d+e+f					
Total remittances: a+b+c+d					
Personal remittances: a+b+c					
a	b	c	d	e	f
Personal transfers (part of current transfers)	Compensation of employees less taxes, social contributions, transport, and travel	Capital transfers between households	Social benefits	Current transfers to NPISHs	Capital transfers to NPISHs

[4] Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), International Monetary Fund, 2009

c. Improving the functional categories in the financial account – Functional categories refer to the primary classification used for the financial transactions, positions, and income in the international accounts. Under BPM6, the categories are: direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets (Table 3).

Table 3. Functional Categories

BPM5	BPM6
Direct investment	Direct investment
Portfolio investment	Portfolio investment
Financial derivatives	Financial derivatives (other than reserves)
Other investments	Employee stock options
Reserve assets	Other investments
	Reserve assets

BPM6 classifies direct investments further according to the relationship between the investor and the recipient entity, as follows:

i. Investment by a direct investor in its direct investment enterprise (DIE) – where an entity or group of related firms is able to exercise control or a significant degree of influence over a direct investment enterprise;

ii. Reverse investment – when a DIE lends funds to or acquires entity in its direct investor, provided it does not own equity of 10 percent or more of the voting power in that direct investor; and

iii. Investment between fellow enterprises – where enterprises are under the control or influence of the same immediate or indirect investor, but the fellow enterprises do not control or influence each other.

d. Expanding the classification of financial assets and liabilities by instrument type – While the BPM6 uses three broad categories of financial assets and liabilities, namely, equity and investment fund shares, debt instruments, and other financial assets and liabilities, a more detailed classification is also used in the Manual, for purposes of harmonizing with the 2008 SNA (Table 4). By contrast, the BPM5 was designed to harmonize the accounts with the 1993 SNA (Table 5).

Table 4. Classification of Financial Instruments

2008 SNA	BPM6
AF11 Monetary Gold	
Gold bullion	Other financial assets and liabilities
Unallocated gold accounts	
AF12 Special drawing rights	Debt instruments
AF2 Currency and deposits	Debt instruments
AF21 Currency	
AF221 Interbank positions	
AF229 Other transferable deposits	
AF29 Other deposits	
AF3 Debt securities	Debt instruments
AF4 Loans	Debt instruments
AF5 Equity and investment fund shares	Equity
AF51 Equity	
AF511 Listed shares	
AF512 Unlisted shares	
AF519 Other equity	
AF52 Investment fund shares/units	
AF521 Money market fund shares/units	
AF522 Other investment fund shares/units	
AF6 Insurance, pension and standardized guarantee schemes	Debt instruments
AF61 Nonlife insurance technical reserves	
AF62 Life insurance and annuity entitlements	
AF63 Pension entitlements	
AF64 Claims of pension funds	
AF65 Entitlements to nonpension benefits	
AF66 Provisions for calls under standardized guarantees	
AF7 Financial derivatives and employee stock options	Other financial assets and
AF71 Financial derivatives	Liabilities
AF711 Forward-type contracts	
AF712 Options	
AF72 Employee stock options	
AF8 Other accounts receivable/payable	Debt instruments
AF81 Trade credit and advances	
AF89 Other accounts receivable/payable	

Table 5. Classification of Financial Instruments: 1993 SNA and BPM5

1993 SNA	BPM5
F.1 Monetary Gold and SDRs	Monetary gold and special drawing rights
F.2 Currency and deposits	Currency and deposits
F.3 Securities other than shares	Debt securities, bonds and notes, money market instruments and financial derivatives
F.4 Loans	Loans
F.5 Shares and other equity	Equity capital, claims on/liabilities to affiliated enterprises and direct investors, reinvested earnings, equity securities, equities
F.6 Insurance technical reserves	Net equity of households in life insurance reserves and in pension funds and prepayments of premiums and reserves against outstanding claims
F.7 Other accounts receivable/payable	Other claims on/liabilities to affiliated enterprises and direct investors, trade credits, other assets

Conclusion

The BSP's shift to BPM6 involves a set of interesting but arduous compilation tasks. These include constant coordination, both internally with other BSP departments and externally with the IMF and other government agencies. Technical assistance and capacity building programs are among the top priorities toward further developing the framework on international accounts. At the same time, the BSP intends to roll out more statistical briefings and users' fora on the implementation of BPM6 to its various stakeholders. These information campaigns would ensure that relevant issues are discussed upfront, and challenges are addressed in a timely manner.

References

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