NOTES ON THE EXTERNAL ACCOUNTS

In March 2013, starting with the Fourth Quarter 2012 Balance of Payments (BOP), the Bangko Sentral ng Pilipinas (BSP) has implemented the new framework in compiling and reporting the country's Balance of Payments (BOP) statistics in accordance with the Balance of Payments and International Investment Position Manual, 6th edition (BPM6). This initiative is aligned with the international best practice of using the standards prescribed by the International Monetary Fund (IMF). 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. Moreover, 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) were posted in the BSP website in September 2014.

To guide the users of BOP data, the highlights of the changes introduced in the BPM6 framework are enumerated below.

Changes	BPM5	BPM6
Classification of financial instruments	Monetary gold and special drawing rights	Monetary gold Gold bullion Unallocated gold accounts Special drawing rights
	Currency and deposits	Currency and deposits
	Debt securities (portfolio investments) and other capital (direct investments)	Debt securities (portfolio investments) and debt instruments (direct investments)
	Financial derivatives	Financial derivatives and employee stock options
	Loans	Loans
	Equity capital and equity securities	Equity and investment fund shares Insurance, pension and standardized guarantee schemes
	Other assets/liabilities (including trade credits)	Other accounts receivable/payable (including trade credits and advances)

Classification of institutional sectors	Monetary authorities Banks General Government Other sectors, including offshore banking units	Central Bank Deposit-taking corporations except the central bank, including offshore banking units General Government Other sectors including other financial corporations, nonfinancial corporations, households and nonprofit institutions serving households, and additional sectors for counterpart data, e.g., international organizations
Changes in BOP components 1. Current Account	Goods and Services Goods account consists of general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and non-monetary gold.	▪ Goods account consists of general merchandise, net exports of goods under merchanting, and nonmonetary gold. ▪ Goods for processing are recorded under the services account as "Manufacturing services on physical inputs owned by others" at value-added cost. ▪ Repairs on goods are recorded under services account as "Maintenance and repair services not indicated elsewhere (n.i.e.)". ▪ Goods procured in ports by carriers are included under general merchandise exports or imports, as applicable. ▪ Merchanting of goods (formerly under services) is classified under goods, with net amounts included in the goods account.

	Services account consists of eleven sub-components, namely, transportation, travel, communication, construction, insurance, financial, computer and information, royalties and license fees and other business services, which comprise of merchanting and other trade-related services, n.i.e., among others.	Services account now has twelve sub-components, namely, manufacturing services on physical inputs owned by others, maintenance and repair services n.i.e., transport, travel, 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. ▪ Telecommunications, computer and information services is a new services grouping. ▪ Renamed sub-headings include transport (previously transportation) and charges for the use of intellectual property n.i.e. (previously royalties and license fees). ▪ Financial services now include financial intermediation services indirectly measured (FISIM), with a method of calculation based on the reference rate. This is to distinguish the recording of service charge from pure interest which is reported under interest income. ▪ Results of research and development, e.g., patents, copyrights and industrial processes, are treated as produced assets compiled in research and development services.[1] ▪ Government services was renamed to "Government goods and services n.i.e." ▪ The term "primary income" is introduced to be consistent with the System of National Accounts.

[1] **Patents, copyrights and industrial processes are treated as non-produced assets under the capital account in BPM5.**

	Income account consists of compensation of employees, including border, seasonal, and other workers, and investment income. Current transfers are subdivided into workers' remittances and other transfers.	▪ More detailed sub-accounts of investment income are introduced to link with functional and instrument classifications of financial instruments. ▪ Income on reserve assets are shown separately. ▪ Interest income is adjusted to remove the FISIM component, i.e., "pure interest." FISIM component is transferred to services. ▪ "Actual interest" is still presented as a memorandum item. ▪ "Secondary income" replaces the term current transfers. ▪ "Personal transfers" is introduced as a broader measurement of workers' remittances, which consist of all current transfers in cash or in kind by OF workers with work contracts of one year or more as well as other household-to-household transfers between Filipinos who have migrated abroad and their families in the Philippines.
2. Capital Account	Capital account consists of capital transfers and acquisition/disposal of non-produced, non-financial assets.	▪ Migrants' transfers, or the personal effects, financial assets and liabilities of persons changing residence, are excluded from capital transfers.
3. Financial Account	The different types of investments under the financial account (direct, portfolio and other) are presented under the directional principle, or according to the direction of the investment relationship. Under the directional principle, investments are shown as either residents' investments abroad or non-residents investments in the reporting economy.	▪ The functional categories under the financial account are organized according to whether the investment relates to an asset or liability. This is also termed as the asset and liability presentation. ▪ Debit/asset entries are changed to net acquisition of financial assets and credit/liability entries are changed to net incurrence of liabilities.

		▪ Direct investment is classified into: investment by a direct investor in its direct investment enterprise, reverse investment, and investment between fellow enterprises. ▪ Claims of non-resident direct investment enterprises from resident direct investors are now presented as reverse investment under net incurrence of liabilities (previously presented as negative entry under debits/assets). Conversely, claims of resident direct investment enterprises from foreign direct investors are now presented as reverse investment under net acquisition of financial assets (previously presented as negative entry under credits/liabilities). ▪ "Reinvestment of earnings" is used in the financial account, to distinguish from reinvested earnings, which is used for the primary income account. ▪ Other capital is renamed to "debt instruments" to include borrowings between direct investors and direct investment enterprises in the form of loans and debt securities. ▪ Financial derivatives is renamed to include "other than reserves" and employee stock options. ▪ The allocation of SDRs is shown as a financial account flow under other investment. This was implemented by the BSP in September 2010.

Financial Account

The overall balance of the financial account is presented in terms of net lending (+)/net borrowing (-). Net lending means that, in net terms, the economy supplies funds to the rest of the world, taking into account acquisition and disposal of financial assets and incurrence and repayment of liabilities while net borrowing means the opposite. 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. The overall balance of the financial account is equal to the sum of the net balances of the main component accounts, namely direct investment, portfolio investment, financial derivatives, and other investment.

Overall BOP Position

The change in the NIR of the BSP arising from transactions (that is excluding effect of revaluation, monetization, and SDR allocation) determines the overall BOP position.

The overall BOP position is computed as follows:

Gross International Reserves (GIR)
Less: Short-term Liabilities and
Use of Fund Credits
= Net International Reserves (NIR)

Change in NIR
Less: change due to non-economic transactions
= Overall BOP Position

Alternatively,

Change in NIR = sum of net inflows of the Current Account, Capital Account, Financial Account (excluding assets/liabilities of the BSP)

However, under BPM6, the sign of the Financial Account balance was reversed due to the adoption of the "assets less liabilities" approach compared to the "liabilities (inflows) less assets (outflows)" approach under BPM5 as illustrated below:

BPM5	**BPM6**
Current Account	**Current Account**
***plus:* Capital Account**	***plus:* Capital Account**
***plus:* Financial Account**	***less:* Financial Account**
Change in NIR	**Change in NIR**