



Twenty-Eighth Meeting of the IMF Committee on Balance of Payments Statistics

Rio de Janeiro, Brazil
October 27–29, 2015

BOPCOM—15/07.b

Philippines' Strategy for Implementing BPM6

Philippines' Strategy for Implementing BPM6

In 2011, the Department of Economic Statistics of the Bangko Sentral ng Pilipinas (BSP) formulated a work plan for the adoption of the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) in the compilation of the country's external sector statistics, namely, the Balance of Payments (BOP) and the International Investment Position (IIP) by March 2013. The shift to BPM6 was completed in March 2014, which included the use of new and/or additional data sources as well as refinements in methodologies, and incorporated the recommendations of a technical assistance mission from the International Monetary Fund (IMF) that visited the Philippines in April 2012 to assist the country in implementing the changes recommended in the new manual.

Prior to the adoption of BPM6 in BOP compilation, the BSP has already implemented the recommended revision in the treatment of Special Drawing Rights (SDR) allocation in September 2010 in the BOP, IIP, External Debt and monetary and financial statistics. The refined measure of personal remittances was also adopted in June 2012 and monthly data were released to the public, together with the statistics on cash remittances of overseas Filipinos that passed through the banking system.

Work Plan: A Two-Phased Approach

The work plan for the adoption of BPM6 was formulated in 2011 to guide the BOP compilers in the revision process. This included the activities to be undertaken, the expected deliverables or outcomes, the timelines for each of the activities, and a communication strategy to properly and adequately disseminate to users the changes to the BOP statistics. Teams were formed within the BOP Compilation Sub-Group under the Balance of Payments Statistics Group to study the changes needed for each of the BOP components, the foreseen challenges to implement the revisions, and the proposed measures or solutions to address the data gaps that were identified, including new data sources and estimation methodologies. The approach is consistent with what the IMF Statistics Department (STA) broadly recommends in implementing the shift to BPM6. The existing data sources were reviewed in terms of capacity to supply the needed information for BPM6.

Simultaneous with the work being done by the compilers, the BSP requested for technical assistance (TA) from the IMF. The compilers benefited from the expertise offered by the TA mission which visited the Philippines on 23 April-4 May 2012 and the training provided to both the compilers and other staff providing data support, such as those from the International Transactions Reporting System (ITRS) Sub-Group and the Cross Border Transactions Survey (CBTS) Sub-Group.

The primary intent of the TA mission was to work with the compilers to finalize the generic conversion of BOP and IIP data to BPM6 format and propose possible enhancements to the existing data collection system to support the BPM6 requirements. However, in the

course of discussing the changes to be introduced based on the existing data, some inconsistencies in the stock and flow data were noted. These had to be addressed before going into BPM6 compilation. Thus, the planned complete shift to BPM6 in March 2013 was pushed back and the BSP opted to undertake a two-phased approach that involved a generic conversion of data being compiled based on the Balance of Payments Manual, 5th Edition (BPM5) by March 2013, and the implementation of the general recommendations outlined in BPM6 by March 2014.

As proposed by the TA mission, an Integration Team was created in the Balance of Payments Statistics Group to undertake the overall reconciliation of stock and flows data as well as monitor the consistency of datasets, as follows:

1. IIP and the Coordinated Portfolio Investment Survey
2. IIP and the Coordinated Direct Investment Survey
3. IIP and External Debt
4. IIP and Monetary Statistics
5. IIP and Financial Statistics

Consultative meetings were conducted with data providers to determine the level of details that can be made available to conform to the requirements of BPM6. The BOP compilers were joined by the staff from ITRS and CBTS Sub-Groups so that the necessary adjustments to the bank reporting system and to the surveys could be determined. These enabled the compilers to identify the gaps and propose alternative and/or additional data sources as well as methodologies in compilation. It was agreed that all the prescribed components for the BOP will be provided, disseminated to the public, and reported to the IMF through the Integrated Correspondence System using Form F16.

The Shift to BPM6

The BSP had already adopted two recommended changes for compliance with BPM6 prior to the planned shift in March 2013. The changes were:

1. The treatment of SDR allocation as a long-term liability in BPM6 (not previously considered a transaction in BPM5) in September 2010. The revised treatment was applied to the historical series of the BOP, IIP, External Debt and monetary and financial statistics.
2. The estimation of personal remittances and dissemination of the data to the public, together with the monthly release of data on cash remittances of overseas Filipinos that were coursed through the banking system, beginning June 2012.

First Phase

The adoption of BPM6 in March 2013 entailed the generic conversion of BPM5 data to the new format for the period covering 2011 and 2012, including the reporting of SDR allocation as a long-term liability under Other Investments and personal remittances as a supplementary item. The generic conversion involved the renaming and reclassification of certain accounts, and the introduction of new ones as called for in the manual. The major changes include separate reporting of income on reserve assets in the Primary Income Account, non-recording of data on migrants' transfers in the Capital Account, and transfer of entries referring to claims of non-resident direct investment enterprises from resident direct investors to Reverse Investment under Net Incurrence of Liabilities in the Direct Investment Account. A parallel run of BPM5 data accompanied the data release.

As earlier pointed out, the TA mission from STA observed some inconsistencies in the stock and flows data and in the methodology or data source used for a few components. This required certain revisions in the estimation methodology for relevant BOP and IIP components. The first release of BPM6 data in March 2013 contained the change in methodology for compiling issuances of equity securities by local banks through the use of data gathered from the Philippine Stock Exchange, the reclassification of offshore banking units from "Other sectors" to "Deposit-taking corporations, except the central bank", and the use of additional data source on travel expenses abroad of residents to include purchases by residents of foreign exchange from non-financial corporations for travel purposes.

Annual BPM6-based IIP statistics for 2011 and 2012 were released to the public in September 2013. Immediately thereafter, the data were reported to the IMF through the ICS using Form S16.

Second Phase

Simultaneous with the generic conversion of BPM5 data to BPM6 format in 2013, the compilers focused their attention to the more challenging task of implementing the other required changes that were difficult to undertake due to lack of sufficient information on the transactions involved. The second phase of the shift to BPM6 was completed in March 2014. At this point, all the recommended changes in the different BOP components were adopted. The data series was backtracked until 2005 in order to allow for more informed analysis of developments in the country's external sector.

Among the major changes that were done during the second phase were the following:

Prescribed Changes	Actions Taken
Aircrafts and ships undergoing <i>repair and maintenance</i> are recorded under services account from goods account	<ul style="list-style-type: none"> • Consultative meetings with local airlines, through the Civil Aeronautics Board (CAB), were conducted to capture international transactions of local airlines to include repair and maintenance services. These include repair and maintenance transactions of local/foreign airlines with non-resident/local aircrafts and vice-versa which are provided in administrative records of CAB.
Exclusion of goods for processing from Goods and transfer of processing fee on these goods to Services under Manufacturing Services on Physical Inputs Owned by Others	<ul style="list-style-type: none"> • The reclassification of goods for processing from goods to services had a substantial impact on the value of goods exports and imports since goods imported on consignment basis and eventually re-exported to parent companies abroad (or to the designated destination), particularly electronics and garments, comprised an appreciable share of merchandise trade. Figure 1 shows the extent of the revision to Goods data following the new treatment for goods for processing. • Consultative meetings with top electronic companies were done to validate and assess their processing activities to enhance the estimation of manufacturing services, particularly on the billing and valuation of imports and finished products (exports). • Currently, the value added or processing fee on services rendered is derived from the FOB value of consigned exports and the FOB value of consigned imported raw materials, which are gathered from the Foreign Trade Statistics. • The improvement of the compilation of manufacturing services is a work in progress. Given existing issues in the proper valuation of goods exports and imports, especially those on consignment basis, valuation adjustments are undertaken by the compilers to conform to the value-added ratio of these goods as per industry practice. Compilers face the difficult task of validating the data on consigned imports against raw material content of exports as reported in the exports document for the following reasons: a) the export documents no longer require the filling up of the item that contains the raw material content of exported goods, and b) logistics companies (forwarders) are allowed to file documents on behalf of the manufacturing company and they usually consolidate the transactions for several entities, without providing details for individual company exports or imports. Once these issues have been resolved by the Inter-Agency Committee on Trade Statistics, further enhancements could take place and consistency with the Foreign Trade Statistics and the National Accounts could be achieved. One improvement that has to be instituted pertains to the data collection process at the Bureau of Customs which is the primary source of data. Up to this point, the BSP opted to report manufacturing services under Technical, Trade-Related and Other

	Business Services, together with Business Process Outsourcing services transactions that are not classified under Computer Services, pending further enhancements to the compilation of this component.
Reporting of <i>Financial Intermediation Services Indirectly Measured (FISIM)</i> under Financial Services separate from the income account	<ul style="list-style-type: none"> FISIM on loans and deposits are estimated as the margins between interest receivable/payable and the reference rates on loans and deposits. Actual interest payables and receivables are extracted from the Financial Reporting Package¹ of banks that is submitted to the BSP while the risk-free interest are computed using Interbank Call Loan rates on deposits and LIBOR on loans.

With the new BOP series based on BPM6 in place, the corresponding annual IIP data covering the period 2006-2012 were released in September 2014. In addition, the BSP also implemented the prescribed reporting of quarterly IIP data starting with the report as of end-March 2013. Henceforth, IIP data were reported every end of the quarter following the release of the BOP statistics.

Figure 1.

GOODS									
BPM5 vs. BPM6									
<i>levels in million US\$, growth rates in percent</i>									
	2005	2006	2007	2008	2009	2010	2011	2012	
BPM5									
Goods, net	-7773	-6732	-8391	-12885	-8842	-10966	-15652	-14818	
Exports	40263	46526	49512	48253	37610	50748	47571	51630	
<i>growth rate</i>	3.8	15.6	6.4	-2.5	-22.1	34.9	-6.3	8.5	
Imports	48036	53258	57903	61138	46452	61714	63223	66448	
<i>growth rate</i>	8.0	10.9	8.7	5.6	-24.0	32.9	2.4	5.1	
BPM6									
Goods, net	-12146	-11459	-13966	-18646	-13860	-16859	-20428	-18926	
Exports	25162	30734	32803	34679	29143	36772	38276	46384	
<i>growth rate</i>	<i>n.a.</i>	22.1	6.7	5.7	-16.0	26.2	4.1	21.2	
Imports	37307	42194	46769	53324	43003	53631	58705	65310	
<i>growth rate</i>	<i>n.a.</i>	13.1	10.8	14.0	-19.4	24.7	9.5	11.3	
Difference									
Goods, net	-4373	-4727	-5575	-5761	-5018	-5893	-4776	-4108	
Exports	-15101	-15792	-16709	-13574	-8467	-13976	-9295	-5246	
<i>growth rate (in percentage points)</i>		7	0	8	6	-9	10	13	
Imports	-10729	-11064	-11134	-7814	-3449	-8083	-4518	-1138	
<i>growth rate (in percentage points)</i>		2	2	8	5	-8	7	6	

¹ The Financial Reporting Package (FRP) is a set of financial statements for prudential reporting purposes composed of the Balance Sheet, Income Statement and Supporting Schedules.

The Way Forward: Remaining Challenges and Future Direction

While the BSP has fully adopted the prescribed changes in BPM6, further enhancements to the compilation of the various BOP components are necessary as enumerated below.

1. The bank reporting system (ITRS) has to be revised to solve the problem of misclassification of transactions. It should be noted that the system was designed even prior to the implementation of BPM5, thus, the transaction codes and definitions were not aligned to the requirements of the compilation process. The system will be replaced next year to accommodate the requirements of BPM6, align the transaction codes and description of the accounts with the Financial Reporting Package of banks to ensure that all transactions with non-residents would be properly reported, and include details on residents' foreign currency- and local currency-denominated transactions with non-residents. The revision to the ITRS would also make available data on merchanting on gross basis (which currently is reported as net).
2. Data gaps in BOP compilation have to be addressed by results generated from surveys which suffer from low response rate. However, the BSP does not have any authority to collect data from non-financial institutions. An amendment to the Central Bank Charter to require non-financial institutions to provide data to the BSP for statistical purposes is being pushed but the Congress of the Philippines is yet to pass the bill. Meanwhile, improvements have been instituted to the Cross Border Transaction Surveys by merging the surveys to reduce respondents' burden. The questionnaire was enhanced and survey coverage was expanded. Information on manufacturing services will be included.
3. Another remaining gap is the availability of information on transactions with fellow enterprises. This transaction is not fully captured in the Coordinated Direct Investment Survey due to the limited coverage of respondents. The possibility of gathering this information could be done once the Philippines' Securities and Exchange Commission is able to generate corporate sector statistics. There are ongoing discussions with the agency in this respect.
4. Data on manufacturing services have to be enhanced. Meetings continue to be scheduled with industry players to capture more accurate information.
5. The BSP will continue to actively engage with other statistical agencies through the Inter-Agency Committees on Trade Statistics and Investment Statistics to resolve statistical issues, including the proper valuation of manufacturing services using customs data complemented with information gathered from industry players, as well as collecting data on foreign direct investments from companies located in export processing zones.