Implementation of IMF Balance of Payments and International Investment Position Manual, Sixth Edition

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Introduction

The Singapore Department of Statistics (DOS) compiles Singapore's balance of payments (BOP) which summarises economic transactions between Singapore residents and non-residents, as well as the international investment position (IIP), a statement showing at a point in time the value of Singapore's financial assets and liabilities with non-residents.

DOS has implemented the latest international statistical standards set out in the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), and Singapore's BOP and IIP are now presented on a BPM6 basis.

The International Monetary Fund (IMF) published the final version of BPM6, which serves as an update to the previous Balance of Payments Manual, Fifth Edition (BPM5), in 2009.

The revised manual has incorporated changes to the methodological framework for the compilation of the BOP and IIP, taking into account recent economic developments such as globalisation, financial and technological innovations, increased emphasis on the use of the balance sheet in examining vulnerabilities, as well as the enhancement of consistencies between international accounts and national accounts.

This article highlights the main changes and improvements with the implementation of BPM6, and provides an analysis of the major accounts and aggregates in the new presentational format.

Major Changes and Improvements

DOS has adopted major changes and enhancements to the compilation of Singapore's BOP and IIP, including external debt which is a subset of the IIP covering the outstanding amount of current debt liabilities owed to non-residents.

The implementation process mainly involved reclassifications and refinements to existing data items as well as the adoption of several methodological improvements.

With the completion of these changes, DOS has been compiling Singapore's BOP and IIP statistics in accordance with the conceptual and compilation framework set out in BPM6 with effect from the Economic Survey of Singapore for 2011 and the release of IIP 2011.

Current Account

The BOP current account records trade in goods and services, along with primary and secondary income flows. Most of the changes affect the goods account and services account, resulting in further differentiation and greater clarity in distinguishing between the values of physical goods traded and services performed.

Goods Account

Major changes to the goods account include the reclassification of merchanting from services to goods, the exclusion of migrants' personal effects, as well as the moving of repairs on goods and processing fees to the services account.

Merchanting refers to the purchase and subsequent resale of goods abroad, with the goods not entering or leaving the compiling economy in the process. Previously recorded as the provision of merchanting services and classified as a services transaction, goods under merchanting have now been reclassified to the goods account in BPM6, with the difference between the value of goods acquired and sold recorded as net exports of goods under merchanting.

The movement of migrants' personal effects, which arise when individuals move their residence from one economy to another, was formerly recorded in the goods account under BPM5.

This was an exception to the principle of change in economic ownership, a term introduced in BPM6 taking into account the risks and rewards of ownership.

With the elimination of these exceptions under BPM6, migrants' personal effects are no longer recorded as international transactions and are excluded from the BOP.

The main differences between the goods accounts under BPM5 and BPM6 are presented in Table 1.

Services Account

In recognition of its growing importance and contribution to global trade, BPM6 also introduced several improvements to the compilation of trade in services statistics.

TABLE 1 KEY CHANGES TO BOP GOODS ACCOUNT

BPM5	BPM6	Key Changes
-	Net exports of goods under merchanting	Reclassified to goods
Migrants' effects	-	Removed from the BOP
Repairs on goods	-	Reclassified to services
Processing fees	-	Reclassified to services

The main changes include the introduction of maintenance and repair services as a major services category, the inclusion of financial intermediation services indirectly measured (FISIM) in financial services, and the reclassification of merchanting from the services account to the goods account.

Maintenance and repair services include maintenance and repairs performed on ships, aircraft and other transportation equipment. Classified as repairs on goods in the goods account under BPM5, such maintenance and repairs have been reclassified to services and included as a new standard component in the BOP services account under BPM6.

FISIM is generated when financial intermediaries such as banks, which provide services when taking in deposits and making loans, charge for these services indirectly by offering lower rates of interest to their depositors and levying higher rates of interest on their borrowers.

Whereas previously included indistinguishably under interest in investment income, FISIM has been reclassified to financial services based on the new BPM6 guidelines. In addition, margins on debt securities, or implicit service charges associated with the buying and selling of debt securities, have also been included in financial services.

Other major changes to trade in services statistics include the formation of telecommunications, computer and information as a new major services category (by incorporating telecommunications services, license fees for the use of computer software and multimedia previously under royalties, and sales and purchases of related intellectual property ownership rights, with computer and information services) as well as the incorporation of sales and purchases of outcomes of research and development (R&D) along with manufacturing and processing services in other business services.

Table 2 provides a summary of the major changes to the services account with the implementation of BPM6.

TABLE 2 KEY CHANGES TO BOP SERVICES ACCOUNT

BPM5	**BPM6**	**Key Changes**
-	Maintenance and repair services	Reclassified to services
Financial	Financial	Includes FISIM and margins on debt securities
Communication	-	Reclassified to transport and telecommunications, computer and information
Computer and Information	Telecommunications, computer and information	Includes telecommunication services Includes license fees for the use of computer software and multimedia / sales and purchases of related intellectual property ownership rights
Royalties	Charges for the use of intellectual property	Excludes license fees for the use of computer software and multimedia
Other Business Services	Other Business Services	Excludes merchanting Includes manufacturing and processing services (processing fees) Includes sales and purchases of outcomes of R&D

Primary and Secondary Income Accounts

The primary income account replaces the income account in the BOP with the adoption of BPM6.

It consists mainly of investment income and compensation of employees, and has been adjusted to reflect pure interest flows with the inclusion of FISIM in financial services.

Current transfers under BPM5, which mainly comprise cross-border remittances, have also been renamed as the secondary income account under BPM6.

Administrative data on remittances have replaced the use of data models to derive estimates of cross-border remittances.

In addition, associated transfers relating to nonlife insurance services receipts and payments in terms of net premiums and claims are also recorded as secondary income flows.

The capital account in the BOP includes acquisitions and disposals of nonproduced, nonfinancial assets in the form of marketing assets such as trademarks and franchises.

With the removal of financial assets and liabilities of migrants moving from one economy to another based on BPM6 recommendations (similar to the removal of migrants' personal effects in the goods account), the capital account is no longer shown as a separate series and is instead consolidated under the financial account to maintain the confidentiality of data reported by individual respondents.

Financial Account and IIP

Several changes have been made to the coverage and conceptual treatment of the BOP financial account, which records the net acquisition of financial assets and the net incurrence of financial liabilities.

Due to the close relationships among the various statistical aggregates within the international accounts, DOS has also aligned and integrated the changes to the financial account with Singapore's IIP and external debt statistics.

Both the financial account and IIP consist of functional categories such as direct investment, portfolio investment, financial derivatives and other investment.

An illustration of the key changes to the financial account in the BOP and IIP is shown in Table 3.

With the implementation of BPM6 and to be in line with international standards, DOS has changed the treatment of Asian Currency Units or ACUs (offshore banking units) from non-resident to resident institutional units.

The new treatment of ACUs has an impact across all functional categories in the financial account and IIP, with cross-border transactions and holdings of such units recorded under the deposit-taking or banking sector.

Direct Investment

Direct investment is now compiled according to the asset/liability principle in the BOP and IIP.

Based on the asset/liability presentation, investment from the direct investor to the direct investment enterprise will be recorded as outflows and stock of assets of the resident economy of the direct investor, while reverse investment from the direct investment enterprise to the direct investor, which had previously been netted off based on the directional principle, will be recorded as inflows and liabilities.

Financial Derivatives

Financial derivatives, or financial instruments whose values are derived from other financial instruments, indicators or commodities, has been introduced as a major functional category.

With the incorporation of financial derivatives, the financial account and IIP include all the functional categories recommended in BPM6.

Other Investment

Under other investment, interbank positions have been reclassified from loans to currency and deposits. BPM6 recommends that all interbank positions other than securities and accounts receivable/payable be classified as deposits to ensure symmetry in recording.

In addition, allocations of Special Drawing Rights[1] or SDRs, previously not recognised as a liability and excluded from the BOP financial account and IIP, are now recorded as the incurrence of long-term liabilities.

TABLE 3 KEY CHANGES TO BOP FINANCIAL ACCOUNT AND IIP

BPM5	**BPM6**	**Key Changes**
Direct Investment Abroad In Reporting Country	Direct Investment Assets Liabilities	Presented according to the asset/liability principle
-	Financial Derivatives	Introduced as a new functional category
Other Investment	Other Investment	Interbank positions reclassified from loans to currency and deposits New allocations of SDRs treated as the incurrence of long-term liabilities

1 Special Drawing Rights are interest-bearing international reserve assets created by the IMF to supplement other reserve assets of member countries.

Trends of Major Accounts and Aggregates

Balance of Payments

Current Account

The current account balance in the BOP and the key analytical balances of its standard components presented on a BPM6 basis are shown in Table 4.

Singapore's current account has been recording consistent surpluses over the years, largely underpinned by strong surpluses in the goods account.

The positive balance on the current account increased from 2004 to 2007 as the goods surplus widened while the services deficit narrowed during the period.

After declining significantly in 2008, the current account surplus increased on the back of an expansion in trade in goods along with the reversal of services deficits to surpluses in recent years (Chart 1).

The goods account surplus rose steadily as the growth of general merchandise exports outpaced that of imports for most years, with the exception of a decline in the surplus in 2008.

With the contraction in external trade when the world economy went into recession in 2009, the trade surplus in goods rebounded as imports fell more than exports. The surplus rose further and peaked in 2010 following the recovery of global trade and improvements in economic conditions.

The deficit in the services account declined significantly from 2005 to 2008, with services receipts rising faster than payments resulting from increased freight earnings and expansion in exports of financial and travel services.

The services shortfall further widened in 2009 as exports and imports of services fell in the midst of the global economic recession, but reversed to surpluses in subsequent years on the backdrop of increasing receipts from transport and travel services (Chart 2).

TABLE 4 CURRENT ACCOUNT - KEY ANALYTICAL BALANCES

S$ billion

	2007	2008	2009	2010	2011
Current Account Balance	69.1	37.3	43.8	75.7	71.7
Goods Balance	86.0	58.9	68.8	86.0	84.8
Services Balance	-3.8	-3.8	-4.6	2.1	2.3
Primary Income Balance	-8.5	-12.6	-14.5	-5.4	-7.0
Secondary Income Balance	-4.5	-5.3	-5.8	-7.0	-8.4

Note: Figures may not add up due to rounding.

CHART 1 CURRENT ACCOUNT

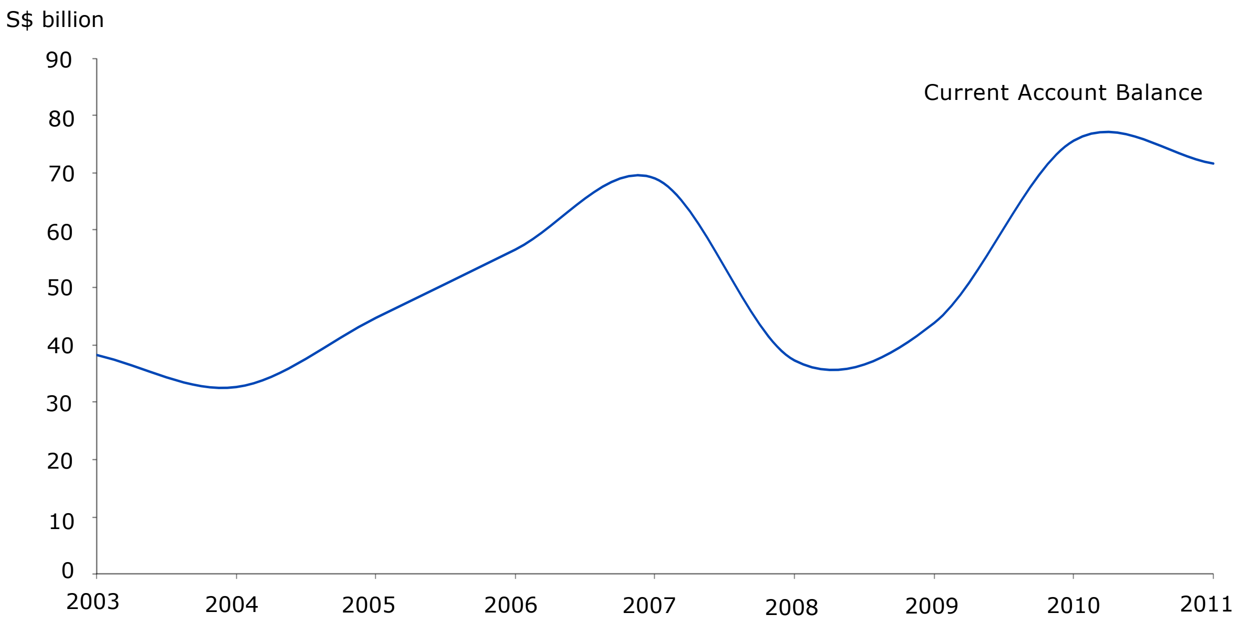
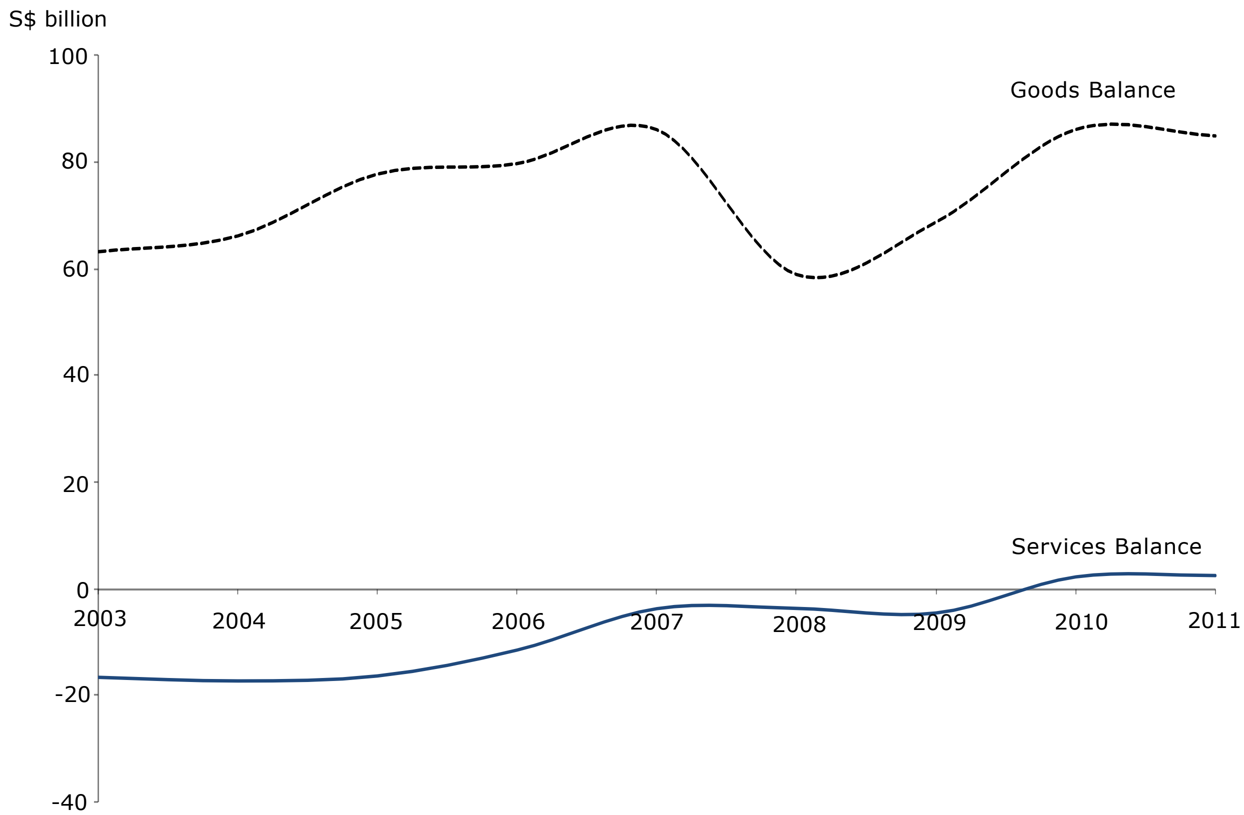


CHART 2 GOODS AND SERVICES ACCOUNTS



Both the primary and secondary income accounts registered deficits from 2003 to 2011. The rising net transfer payments in the secondary income account were due to increases in overseas remittances by foreigners working in Singapore, while annual net payments in primary income were largely attributable to healthy returns for foreign investors from significant inward foreign direct investment (FDI) in the local economy.

Financial Account

Table 5 presents the BOP financial account in the new BPM6 format, along with the major functional categories of the account.

The financial account deficit rose significantly from 2004 to 2007 as a result of increasing net outflows in other investment and portfolio investment. With the reversal of net outflows in portfolio investment to significant net inflows in 2008, net shortfalls declined significantly and have since been relatively volatile due to continued uncertainties in external conditions in the world economy (Chart 3).

Net assets in portfolio investment rose significantly in 2007 but reversed to net inflows in the following year due to the withdrawal of investments in foreign debt securities by deposit-taking corporations (i.e. the banking sector). Portfolio investment flows have reflected movements in the banking sector over the years. Similar to portfolio investment, financial derivatives has also been recording net outflows since 2006 (the first reference year for which data on cross-border derivative transactions are available), except for net inflows in 2008.

Other investment has been relatively volatile and driven by movements in all institutional sectors. While recording net outflows in general at an overall level, other investment in the banking sector has been registering consistent net inflows with the exception of significant net outflows coinciding with the financial crisis of 2008 and moderation of economic growth in 2011.

In contrast to other functional categories, direct investment has been recording constant net inflows, as liabilities exceeded assets on a yearly basis (Chart 4).

TABLE 5 FINANCIAL ACCOUNT - KEY ANALYTICAL BALANCES

S$ billion

	2007	**2008**	**2009**	**2010**	**2011**
Financial Account Balance	-39.4	-21.9	-33.0	-17.6	-50.4
Direct Investment	15.1	7.1	9.8	37.4	48.8
Portfolio Investment	-71.5	16.4	-58.4	-36.7	-36.1
Financial Derivatives	-0.8	2.8	-25.6	-13.1	-14.0
Other Investment	17.8	-48.1	41.3	-5.2	-49.0

Note: Figures may not add up due to rounding.

CHART 3 FINANCIAL ACCOUNT

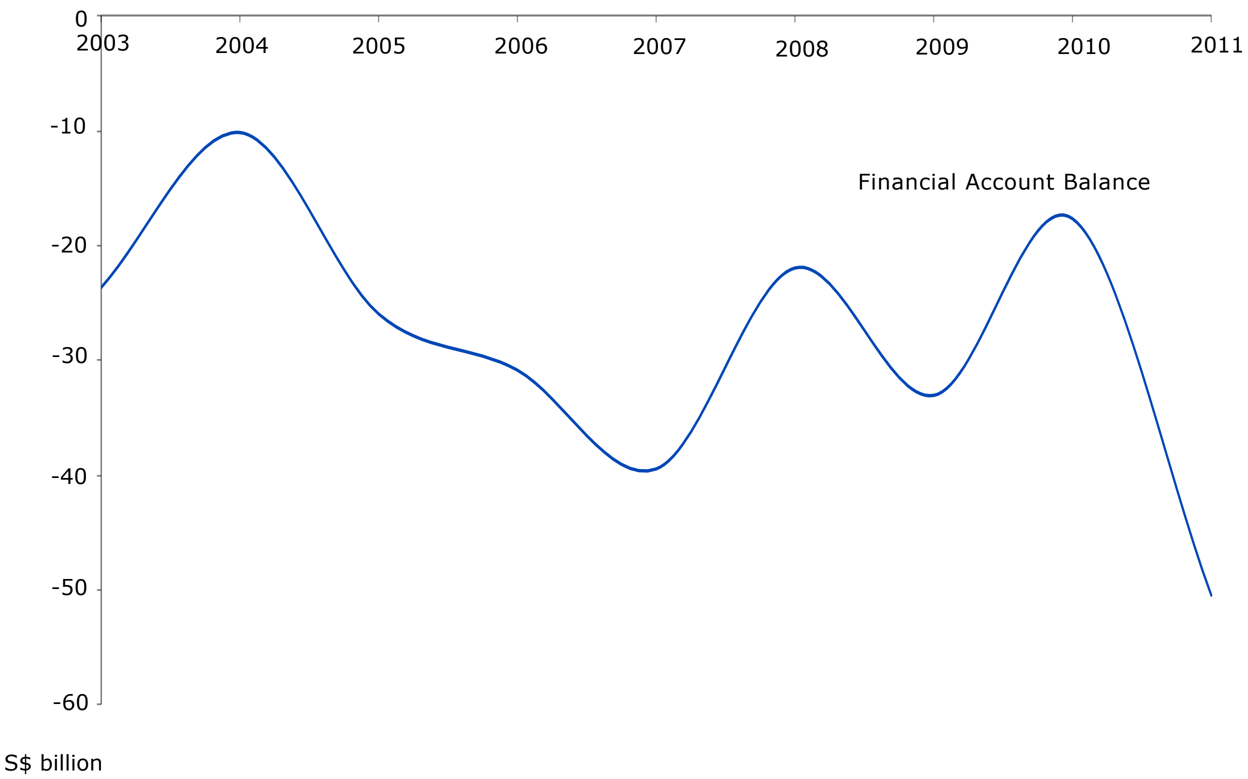
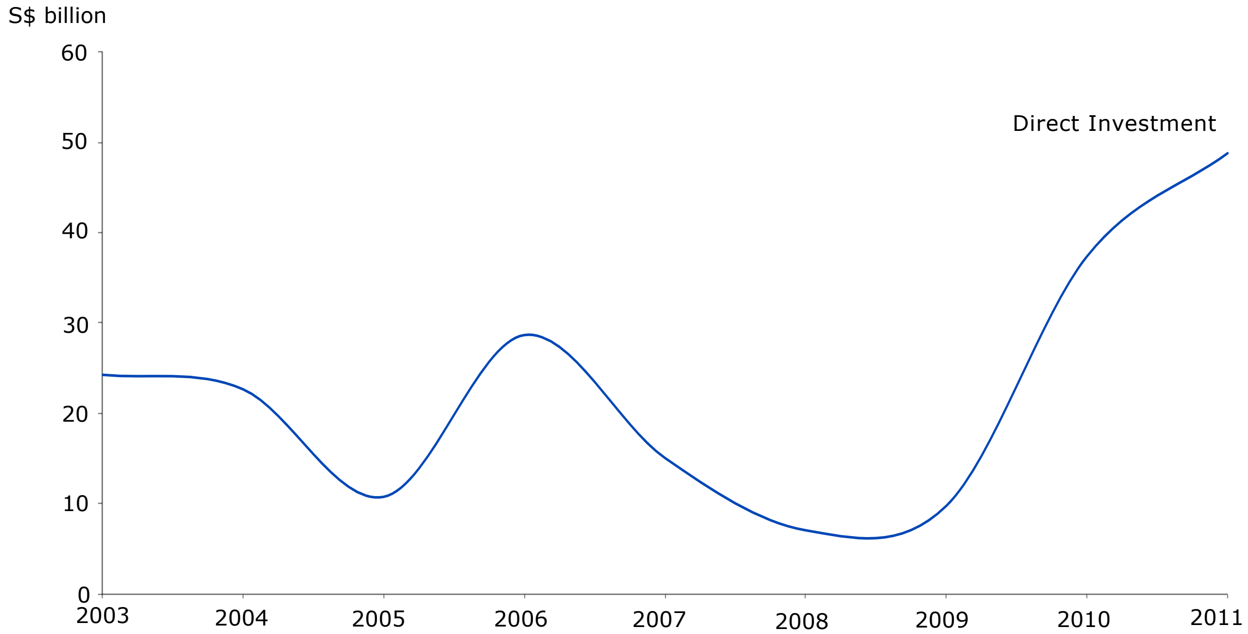


CHART 4 DIRECT INVESTMENT



Direct investment net liabilities fell in 2008 as investors withheld cross-border investments with the advent of the financial crisis, but rebounded sharply thereafter as inward FDI rose with the strong recovery of the Singapore economy in 2010.

International Investment Position

As a net creditor nation, Singapore's IIP has been recording net asset positions as resident holdings of external assets (overseas investment) consistently exceeded external liabilities (Chart 5). The net IIP rose steadily from 2003 to 2006 as the growth in overseas investment outpaced that of total liabilities or foreign investment.

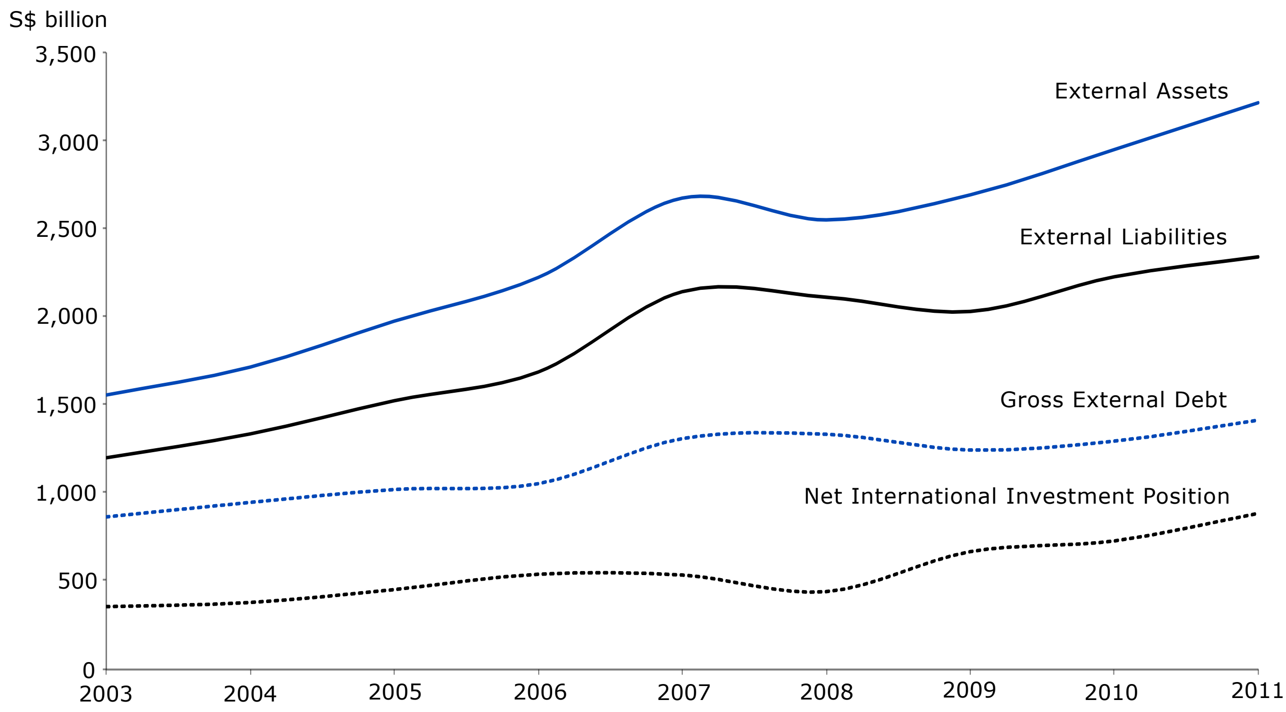
With the onset of the global financial crisis, the net IIP asset position decreased over the next two years as the stock of liabilities rose faster than assets in 2007 while both overseas investment and foreign investment fell in 2008.

The net IIP has since increased from 2009 onwards with the recovery of external assets.

The stock of overseas investment, largely driven by portfolio investment assets, generally increased over the period of 2003 to 2011, with the exception of 2008.

Foreign investment in Singapore also grew over the years, but declined in 2008 and 2009 respectively on the back of decreasing liabilities in portfolio investment followed by a reduction in other investment and financial derivative liabilities.

CHART 5 INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT



In addition, gross external debt, which constitutes part of external liabilities, rose in most years except for 2009 with the deposit-taking or banking sector accounting for the bulk of total debt liabilities.

Concluding Remarks

The implementation of BPM6 has been a major exercise undertaken by DOS to bring Singapore's BOP and IIP in line with the latest international statistical standards and guidelines.

The successful adoption of BPM6 recommendations has enhanced the coherence of Singapore's international accounts and increased its relevance to underlying economic conditions.

DOS will continue to conduct additional research and reviews on further conceptual issues highlighted in BPM6, with a view to developing new methodologies and data sources for further improvements and enhancements to the quality and analytical usefulness of Singapore's BOP and IIP statistics.

Overseas Visitors

The Singapore Department of Statistics (DOS) welcomed a five-member delegation from Guangxi Zhuang Autonomous Region, China over the past six months.

Topics discussed included the annual and short-term industry surveys conducted by DOS that cover the logistics sector.

Contents

The *Statistics Singapore Newsletter* is issued half-yearly by the Singapore Department of Statistics.

It aims to provide readers with news of recent research and survey findings. It also serves as a vehicle to inform readers of the latest statistical activities in the Singapore statistical service.

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