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**Implementation of *BPM5* in Compiling  
Balance of Payments Statistics of Hong Kong, China**

**Prepared by the Census and Statistics Department  
Hong Kong, China**

## **Implementation of *BPM5* in Compiling Balance of Payments Statistics of Hong Kong, China**

In June 2000, the Census and Statistics Department (C&SD) released the first set of detailed Balance of Payments (BoP) accounts for Hong Kong in respect of the reference periods of 1998 and the four quarters of 1999. The BoP account released conformed with the coverage and periodicity requirements of the SDDS. It contained detailed breakdowns for both the current account and the capital and financial account. Annex presents the format of the detailed BoP account of Hong Kong. With gradual improvement in timeliness of BoP statistics, as from the reference period of the third quarter of 2000, Hong Kong's quarterly BoP account has been disseminated with a time lag of less than 3 months, fully meeting the timeliness requirement of the SDDS.

2. BoP statistics of Hong Kong were compiled in accordance with the guidelines set out in the IMF's *BPM5*. Unlike other economies that had been compiling their BoP accounts for some years, Hong Kong did not encounter certain problems that these economies generally faced in the implementation of *BPM5* (e.g. reclassification of data from the *BPM4* format to the standard components of *BPM5*, backdating of historical series of standard components). The setting up of new statistical systems for the compilation of financial account where most required data were initially unavailable for Hong Kong was a major challenge faced by Hong Kong in implementing the *BPM5*. In regard to the compilation of the current account, the required data were generally available. However, various enhancements to the existing data were still required in order to meet the *BPM5* requirements.

3. This paper discusses various developments undertaken, some salient features and practical difficulties involved in the implementation of *BPM5* in compiling BoP statistics of Hong Kong.

### **Current Account**

#### **Goods**

4. Similar to many other economies, data required for the compilation of statistics on imports and exports of goods mainly come from trade declarations submitted by importers and exporters. In Hong Kong, statistics compiled from trade declarations are valued on c.i.f. basis for imports and f.o.b. basis for exports, which, however, do not totally conform to the *BPM5* requirements that both imports and exports should be valued on f.o.b. basis.

5. To compile imports of goods on f.o.b. basis, the ratio of f.o.b. to c.i.f. for imported goods is estimated based on data collected from the Survey on Insurance and

Freight Costs for Import Trade <sup>(1)</sup>. The f.o.b. to c.i.f. ratios for different time periods are then applied to convert the corresponding values of imports on c.i.f. basis to f.o.b. basis.

6. As for the five detailed components <sup>(2)</sup> of goods account recommended in the *BPM5*, Hong Kong has encountered some practical difficulties in compiling separate estimates for these breakdowns. At present, Hong Kong only publishes statistics on goods at the aggregate level. Separate estimates in respect of goods for processing related to the Mainland of China and non-monetary gold are compiled for internal reference. More work will be required to derive reliable estimates at detailed component level.

## Services

7. Hong Kong closely follows the principles (including concept and definition of residence, valuation of transactions, and time of recording) as prescribed in the *BPM5* in the measurement of services transactions between residents and non-residents. Statistics on imports and exports of services are compiled based on data collected from the Annual Survey of Imports and Exports of Services (ASIES), supplemented by data from other survey sources and administrative returns.

8. When the services account was first compiled for the BoP account in respect of the reference period of 1997, trade in services statistics were compiled based on industry of the service producer, and data breakdowns were limited to transportation, travel and other services only. With enhancements in the ASIES undertaken in recent years, trade in services statistics are currently compiled on a service basis (i.e. by type of service produced rather than by industry of the producer). Information on the industry-service profiles collected from the enhanced ASIES also provides benchmark data for backdating the historical series of trade in services statistics on a service basis.

9. Furthermore, the classification of trade in services has been enhanced as from the second quarter of 2002, with five breakdowns (namely transportation, travel, insurance services, financial services and other services) published in the quarterly BoP account. The full breakdown of eleven service items <sup>(3)</sup> given in the *BPM5* are published in the annual BoP account. All such enhancements have also been backdated to the entire historical series of services account starting from 1997.

10. Hong Kong will continue to keep in view the latest international development in

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(1) The Survey on Insurance and Freight Costs for Import Trade has been conducted since the first quarter of 1996, with the sample of consignments of goods randomly selected from import declarations.

(2) Comprising general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers, and non-monetary gold.

(3) Comprising transportation, travel, communications services, construction services, insurance services, financial services, computer and information services, royalties and license fees, other business services, personal, cultural, and recreational services, and government services.

trade in services statistics. These include work relating to compiling and disseminating figures on trade in services based on the Extended Balance of Payments Services (EBOPS) classification and study on the feasibility of collecting data on Foreign Affiliated Trade in Services (FATS)<sup>(4)</sup>. In undertaking such developments, further enhancements to the existing statistical system are required.

## **Income**

11. For compiling GNI of Hong Kong, the Survey of External Factor Income Flows (SEFIF) was first conducted for the reference period of 1993 to provide the primary data source of Hong Kong's external factor income flows. As from the reference period of 1998, SEFIF was integrated into the new Survey of External Claims, Liabilities and Income (SECLI) designed for compiling the BoP account. Under the SECLI framework, data required for the compilation of external factor income flows, as well as transactions and positions of external claims and liabilities were collected. More details about SECLI are given in this paper.

## **Current Transfers**

12. According to the *BPM5*, transfers are offsetting entries to balance, in an accounting sense, one-sided transactions such as donation where economic value is provided by resident to non-resident without receiving a quid pro quo. Experience indicates that the estimation of transfers in BoP account would help to reduce the net errors and omissions of the account. Therefore, Hong Kong has set up a statistical system for estimating transactions relating to current transfers.

13. Besides survey results which are used for estimating claims and net premiums for non-life insurance, administrative records and data models are also used for the estimation of current transfers. The input parameters for the data models are mainly derived from data collected from administrative returns and relevant organisations. As for transfers of the government sector, the data are obtained from government accounting records. In the case of Hong Kong, workers' remittances made by foreign domestic helpers in Hong Kong and remittances of Hong Kong residents to relatives outside Hong Kong constitute a significant proportion of the current transfers outflow.

## **Capital Account**

14. Similar to current transfers, data models and administrative records are used for estimating capital transfers. On external transactions in non-produced and non-financial assets, owing to the lack of the required data and the relative insignificance of such transactions in Hong Kong, no separate estimate is made for this component.

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(4) Reference is made to the Draft *Manual on Statistics of International Trade in Services* prepared by the Interagency Task Force on Statistics of International Trade in Services.

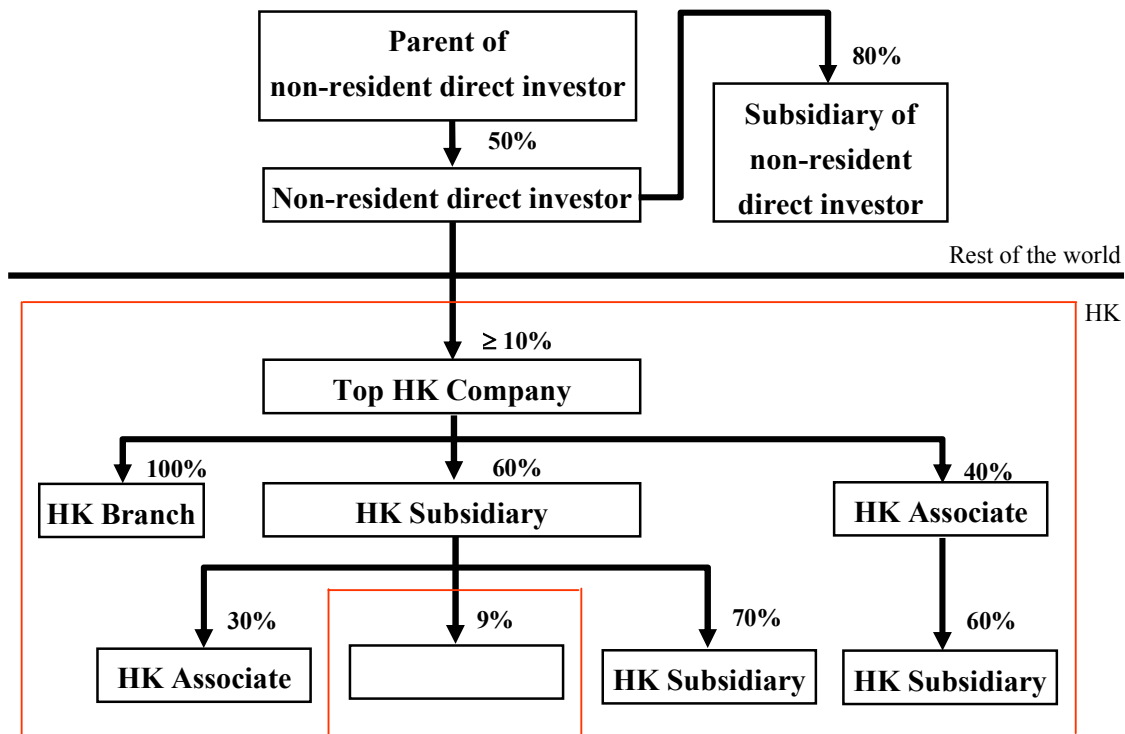
**Financial Account**

**Data Collection System**

15. SECLI was launched in 1999 to collect data on transactions and positions of external claims and liabilities, and on external income flows between residents and non-residents of Hong Kong. All business undertakings which are residents of Hong Kong and have external claims or liabilities, either on own account or on behalf of other clients, are covered by SECLI.

16. Under SECLI, the top Hong Kong company of a Hong Kong Enterprise Group (HKEG<sup>(5)</sup>) is designated as target company for mainly reporting direct investment (DI) data for the enterprise group as a whole. Diagram 1 below gives an illustration on the concept of HKEG.

Diagram 1: An Illustrative Example for Hong Kong Enterprise Group



HKEG

(5) A HKEG is defined to consist of a Hong Kong parent company (i.e. the top Hong Kong company), its Hong Kong subsidiaries, its Hong Kong associates and its Hong Kong branches. The HKEG also includes any Hong Kong subsidiaries and associates of Hong Kong subsidiaries, any Hong Kong subsidiaries of Hong Kong associates, but excludes any Hong Kong associates of Hong Kong associates, proceeding down the ownership chain of the parent company.

17. As regards data on portfolio investment (PI), financial derivatives (FD) and other investment (OI), since such investment activities are very often made through local financial intermediaries or agents (such as banks, insurance companies, fund managers, custodians, share registrars), these financial intermediaries and agents are identified as the data suppliers. They are required to provide relevant data on investments they made on their own accounts as well as those they made on behalf of their clients.

### **HKEG as Data Reporting Unit for Direct Investment**

18. While the use of HKEG is fully in line with the recommendation stipulated in the *BPM5*<sup>(6)</sup>, taking a HKEG as the unit for data reporting on DI is particularly efficient since relevant data can normally be found in the consolidated accounts of an enterprise group, though sometimes special consolidation effort is still required. For a HKEG, the top Hong Kong company is the most appropriate data reporting unit because it usually keeps the consolidated account of the enterprise group. Furthermore, the top company is usually the one that makes strategic decisions on DI abroad and receives foreign DI into Hong Kong.

19. Notwithstanding the above benefits, the use of HKEG as data reporting unit for DI would make it sometimes difficult for data users to conduct detailed analysis of the economic activities undertaken by HKEG. This is because a HKEG is usually engaged in several major economic activities and considerable difficulties are encountered in collecting separate data on these activities.

### **Immediate vs. Ultimate Source/Destination of Direct Investment**

20. The *BPM5* recommends that the so-called special purpose entity (SPE) should not be looked through, insofar as it is an integral part of a DI network (i.e. it meets the “10% or more” equity ownership rule). The SPE can be a holding company, regional headquarter or other business structure, with the purpose of setting up for administration, management of foreign exchange risk or facilitating of financing of investment etc.

21. Hong Kong adheres to this recommendation in compiling DI statistics and in attributing country of residence to a company. Furthermore, reference is also made to the OECD’s *Benchmark Definition of Foreign Direct Investment, Third Edition (BD3)*. The standard of *BD3* is fully consistent with the *BPM5*. It provides useful operational guidance on how DI statistics should be compiled. Adherence to these standards ensures that the DI statistics compiled would meet the internationally agreed standard.

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(6) Paragraph 362 of the *BPM5*.

22. For the purpose of attributing country of residence to a company, Hong Kong adopts a set of operational rules<sup>(7)</sup> to decide whether a company has a significant presence in an economy. The company will not be looked through if it has any one of the following characteristics:

- ◆ at least one production establishment in the economy and has plan to operate that establishment indefinitely or over a long period of time.
- ◆ a complete and separate set of business accounts of local activities (e.g. balance sheet and income statement).
- ◆ funds received for enterprise work for the enterprise account.
- ◆ income taxes paid to the economy.
- ◆ land or buildings located in the economy.

23. On the other hand, it is a common practice for Hong Kong companies to set up non-operating companies in offshore financial centre, notably BVI and Bermuda. According to the above operational rules, many of such non-operating companies which do have significant presence in the offshore financial centres will not be looked through in compiling country breakdown of DI statistics of Hong Kong.

24. Reflecting this situation, a significant amount of Hong Kong's outward DI is directed to companies located in offshore financial centre, amounting to over 50% of Hong Kong's total outward DI position. However, since the primary purpose of setting up these non-operating companies is to channel investment funds, the actual places of using the funds are not these offshore financial centres. Some of these funds are channelled to the Mainland of China, some to other places and a substantial proportion of these funds are even channelled back to Hong Kong.

25. In accordance with recommendation given in the *BPM5* and *BD3*, DI statistics of Hong Kong are compiled on the basis of immediate source/destination of DI, but not ultimate source/destination of DI. In fact, it is practically difficult to identify ultimate source/destination of DI funds since the structures of many multinational companies involved in DI are often very complicated. Moreover, DI funds provided by ultimate source may be mixed with other funds that are provided by other companies along the ownership chain of DI, thus further increasing the difficulty of tracing the funds which come purely from the ultimate source.

26. Notwithstanding the distinct feature of Hong Kong's DI statistics and the potential difficulty in compiling DI statistics by ultimate source/destination, Hong Kong has also compiled a supplementary set of DI statistics, with (i) inward DI which are in fact originated from Hong Kong, and (ii) outward DI which are in fact channelled back to Hong Kong, excluded from both inward and outward DI statistics of Hong Kong.

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(7) The operational rules are in line with the principles given in paragraphs 73 and 78 of the *BPM5*.

27. While this supplementary set of DI statistics is provided to serve wider application and analytical purpose, it is not intended to be used as the main set of DI statistics of Hong Kong. In recognition of the increasing expectation from local and international data users, the supplementary set of DI statistics is produced in recent years to support special purpose analysis and other data applications.

## **Avoiding Duplications and Omissions in Data Reporting**

### *Direct Investment Made by Individuals*

28. The *BPM5* stipulates that direct investors may be individuals, enterprises, associated groups of individuals or enterprises, and any other organizations that own non-resident direct investment enterprises. Since data on DI statistics are collected from HKEG through SECLI, individuals making DI outside Hong Kong but not operating under registered companies are not covered.

29. Given the close economic links between Hong Kong and the Mainland of China, it is inevitable that some Hong Kong individuals would make DI in the Mainland without setting up companies in Hong Kong. Furthermore, purchase of real estate in the Mainland by Hong Kong individuals is also becoming more popular in Hong Kong given the close social and economic links between Hong Kong and the Mainland. To account for such potential omissions of DI in SECLI, reference has been made to counterpart statistics (e.g. inward FDI statistics of the Mainland) to derive estimates in respect of such DI outflow to the Mainland as well as the corresponding DI income to Hong Kong.

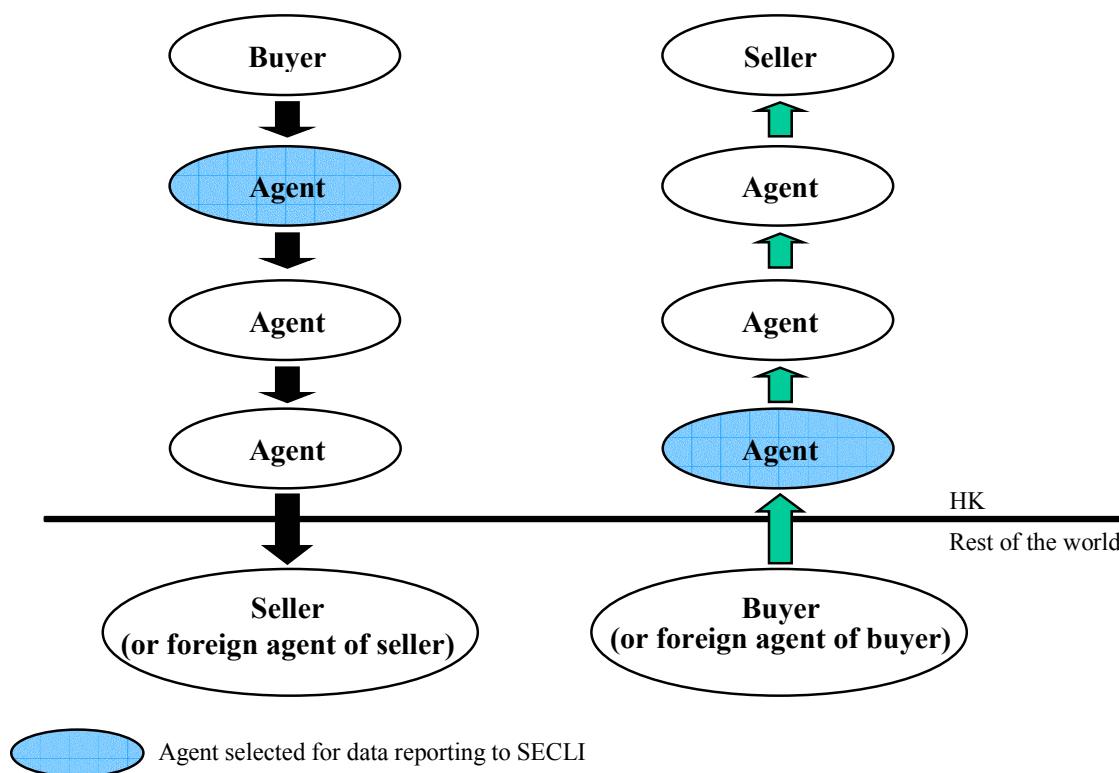
### *Agent-to-Agent Dealing*

30. To enhance overall efficiency in data collection and to minimise reporting burden to end investors, especially to those small individual end-investors, financial intermediaries or agents (such as banks, insurance companies, fund managers, custodian, share registrars) are selected as target companies for reporting data on PI, FD and OI. However, several agents may be involved in a single external financial transaction and reporting of duplicated data will occur if all the agents involved are selected in the same survey and report the same single transaction.

31. To avoid duplicated reporting, the agents closest to the end-investors are primarily selected to report the relevant data. Specifically, these agents are requested to report their own account transactions and holdings of external financial assets even when such assets are entrusted to other local agents. On the other hand, other agents are requested to report data on transactions and holdings of external financial assets on behalf of their clients, other than those clients which are also financial agents. For other companies, they are requested to report only those own account external financial transactions that are directly handled by themselves, or directly by their non-resident agents which cannot be covered by SECLI. Diagram 2 below illustrates the reporting arrangement adopted in SECLI for agent-to-agent dealing:



Diagram 2: Reporting Arrangement for Agent-to-Agent Dealing



32. For the financial agents shaded in the above diagram, since they are closest to the buyer (end-investor) or foreign agent of buyer, they are selected to report the relevant transaction and position data on the external investment made. As regards other agents not shaded in the above diagram, the data reporting instructions of SECLI state that there is no need for them to report the related data because they only act on behalf of other resident agents. These clear reporting instructions ensure that a single external financial transaction passing through several agents is reported once in the SECLI.

Equity Securities Listed on Stock Exchange of Hong Kong <sup>(8)</sup>

33. The *BPM5* states that an enterprise is a resident unit of an economy when its centre of economic interest is in the economic territory of the economy. In determining residence of an equity security, the residence of the issuer of the equity security is used. Hong Kong follows this principle to determine residence of equity security, whereby the equity securities listed on the Stock Exchange of Hong Kong (SEHK) are allocated into resident and non-resident securities.

(8) The survey approach adopted in SECLI for collecting transaction and position data for equity securities listed on the Stock Exchange of Hong Kong is referred as combined end-investors and custodians approach on a security-by-security basis in the *Coordinated Portfolio Investment Survey Guide, Second Edition* published by the IMF.

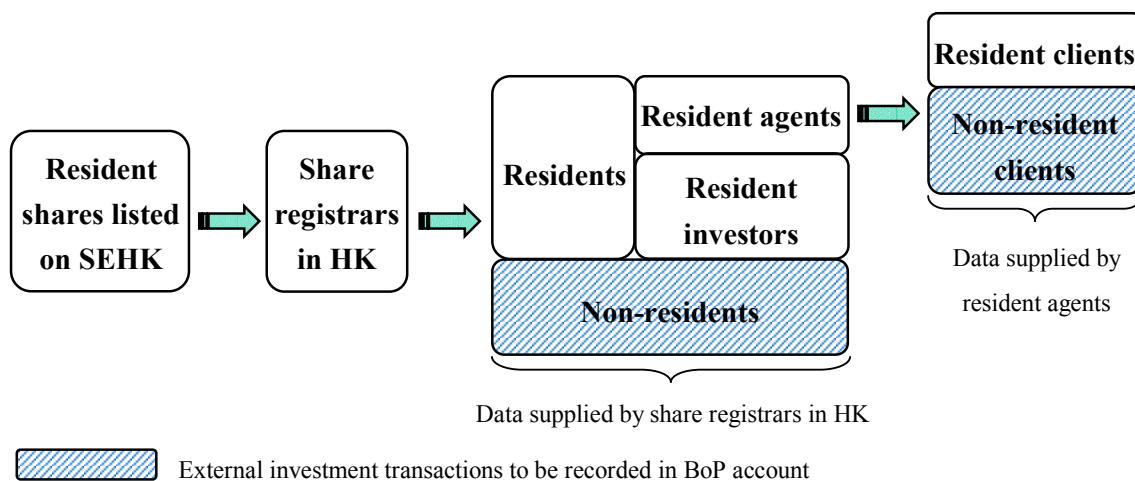
34. To collect PI data on equity securities listed on SEHK, share registrars are the major data suppliers. For data collection purpose, inward PI occurs when shareholders with overseas registered addresses invest in resident equity securities, whereas outward PI occurs when shareholders with local registered addresses invest in non-resident equity securities.

35. However, some non-residents may entrust the resident shares they own to Hong Kong resident agents for custody. The investment made by them through Hong Kong agents are therefore anonymous on the shareholder lists kept by Hong Kong share registrars. If no adjustment is made, data on inward PI collected from Hong Kong share registrars will be under-reported to the extent that they do not include investment by non-resident end-investors through Hong Kong agents.

36. On the other hand, some Hong Kong addresses appearing on the list of shareholders of non-resident shares are only addresses of local agents who are entrusted by end investors to keep the latter's shares in custody. Some of these end-investors may be non-residents of Hong Kong. If no adjustment is made, data on outward PI collected from Hong Kong share registrars will be over-reported to the extent that they include investment made by Hong Kong agents acting on behalf of non-resident end-investors.

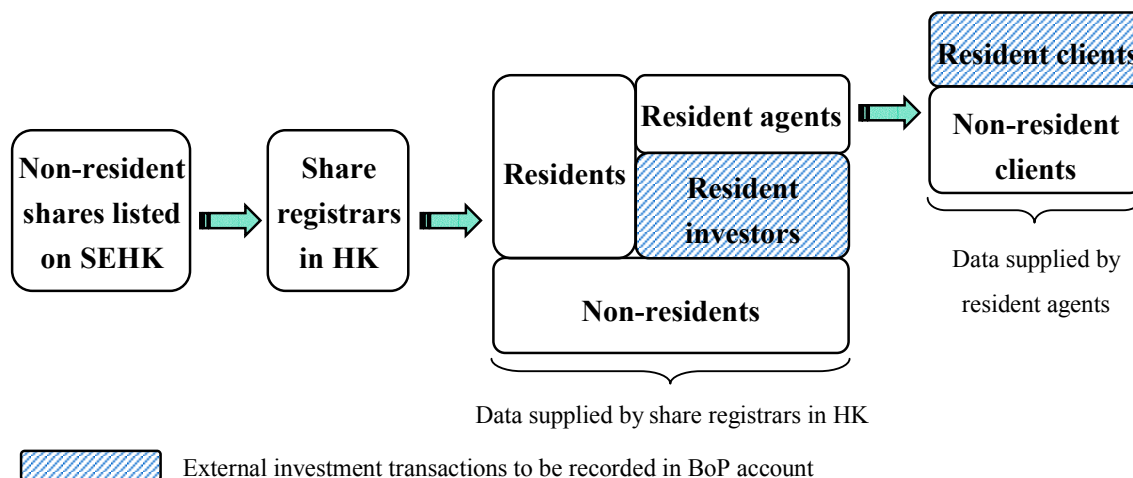
37. To avoid possible omission and duplication of investment in equity securities listed on SEHK, adjustments are made on PI data collected from Hong Kong share registrars using relevant data collected from Hong Kong agents. The following diagrams illustrate the mechanism adopted for such adjustments.

Diagram 3: Investment in Resident Shares by Non-residents of Hong Kong



38. In Diagram 3 above, the shaded parts represent investment of resident shares listed on SEHK by non-residents. To adjust for possible omission of inward PI made by non-residents, the amount of investment made on resident shares listed on SEHK by all resident agents on behalf of their non-resident clients are added to the data collected from share registrars in Hong Kong.

Diagram 4: Investment in Non-resident Shares by Residents of Hong Kong



39. On the other hand, the shaded parts in Diagram 4 above represent investment of non-resident shares listed on SEHK by residents. To adjust for possible over-reporting of outward PI made by residents, the amount of investment made on non-resident shares listed on SEHK by all resident agents acting on behalf of their non-resident clients are taken out from the data collected from share registrars in Hong Kong.

#### Offshore Deposit of Non-bank Sector

40. While data on offshore deposits made by banks and non-bank corporations are collected through SECLI, those made by households and individuals are outside the coverage of SECLI. To cater for such data omission, reference is made to the locational banking statistics compiled by Bank for International Settlements (BIS) to derive estimates in respect of offshore deposits placed by Hong Kong residents (i.e. households and individuals).

#### **Estimating Net Transactions from Position Data**

41. According to *BPM5*, transactions data should be valued at market prices at the time when the transactions are taken place, whereas position data should be valued at market prices at beginning and end of a reference period.

42. As an integrated survey, SECLI collects data on transactions and positions of external claims and liabilities, and on external income flows between residents and non-residents of Hong Kong. To reduce reporting burden, SECLI provides the flexibility to respondents to report only position data at beginning and end of a reference period, as well as other changes for the period, if they encounter major difficulties in reporting net transaction data for the period. An indirect approach<sup>(9)</sup> is

(9) The indirect approach is based on recommendations given in paragraphs 732 to 739 of the *BoP Compilation Guide*.

then adopted to derive net transactions from position change (i.e. the difference between values at beginning and end position), taking into account valuation changes (including price variation and exchange rate variation) and other changes during the period.

43. While other changes are reported by respondents, the indirect approach of estimating net transactions from position change requires separate estimation of valuation changes. To estimate price variation of securities, either individual share prices (for shares listed on SEHK) or price indices for stock and debt markets (for other securities) are used. As regards estimating exchange rate variations, data on market exchange rates are applied.

### **Concluding Remarks**

44. The C&SD closely follows the guidelines set out in the *BPM5* for the compilation of BoP and related statistics of Hong Kong. In designing the data collection and compilation systems, a number of features has been built in with a view to resolving some of the practical difficulties involved and to reduce reporting burden of respondents.

45. As an on-going effort to compile more useful statistics for both domestic and international data users to better analyse Hong Kong's external financial situation, the C&SD has undertaken a number of initiatives to enhance the availability of external financial statistics for Hong Kong.

46. In June 2002, the C&SD published Hong Kong's first set of annual International Investment Position (IIP) statement for the reference periods of 2000 and 2001, as well as quarterly External Debt (ED) statistics<sup>(10)</sup> for the reference period of the first quarter of 2002. Furthermore, Hong Kong has participated in the 2001 Coordinated Portfolio Investment Survey (CPIS) conducted by the IMF. The CPIS is undertaken with a view to improving statistics on holdings of PI assets. Participation in the CPIS would help Hong Kong to enhance the data quality and analytical framework of PI statistics.

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Census and Statistics Department  
Hong Kong, China  
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(10) The ED statistics of Hong Kong are compiled according to the recommendations given in the *External Debt Statistics: Guide for Compilers and Users* prepared by the Inter-Agency Task Force on Finance Statistics.

## Hong Kong's Balance of Payments Account

### Standard Components

#### CURRENT ACCOUNT

*Credit*

*Debit*

#### A. GOODS

*Credit*

*Debit*

#### B. SERVICES

*Credit*

*Debit*

Transportation, credit  
 Transportation, debit  
 Travel, credit  
 Travel, debit  
 Communications services, credit  
 Communications services, debit  
 Construction services, credit  
 Construction services, debit  
 Insurance services, credit  
 Insurance services, debit  
 Financial services, credit  
 Financial services, debit  
 Computer and information services, credit  
 Computer and information services, debit  
 Royalties and license fees, credit  
 Royalties and license fees, debit  
 Other business services, credit  
 Other business services, debit  
 Personal, cultural, and recreational services, credit  
 Personal, cultural, and recreational services, debit  
 Government services, n.i.e., credit  
 Government services, n.i.e., debit

#### C. INCOME

*Credit*

*Debit*

Investment income, credit  
     Direct investment income  
         Dividends and distributed branch profits  
         Reinvested earnings and undistributed branch profits  
         Income on debt (interest)  
     Portfolio investment income  
         Income on equity  
         Income on bonds and notes  
         Income on money market instruments  
     Other investment income

## Standard Components

Investment income, debit  
  Direct investment income  
    Dividends and distributed branch profits  
    Reinvested earnings and undistributed branch profits  
    Income on debt (interest)  
  Portfolio investment income  
    Income on equity  
    Income on bonds and notes  
    Income on money market instruments  
  Other investment income  
  Compensation of employees, credit  
  Compensation of employees, debit

### **D. CURRENT TRANSFERS**

#### *Credit*

  General government  
  Other sectors

#### *Debit*

  General government  
  Other sectors

### **CAPITAL AND FINANCIAL ACCOUNT**

#### **CAPITAL ACCOUNT**

##### *Credit*

##### *Debit*

#### Capital transfers

  General government  
  Other sectors

Non-produced and non-financial assets

#### **FINANCIAL ACCOUNT**

#### ***Financial non-reserve assets (net change)***

##### **A. *Direct investment***

###### *Direct investment abroad*

###### Equity capital

  Claims on affiliated enterprises  
  Liabilities to affiliated enterprises

###### Reinvested earnings

###### Other capital

  Claims on affiliated enterprises  
  Liabilities to affiliated enterprises

###### *Direct investment in HK*

###### Equity capital

  Claims on direct investors  
  Liabilities to direct investors

###### Reinvested earnings

###### Other capital

  Claims on direct investors  
  Liabilities to direct investors

##### **B. *Portfolio investment***

###### *Assets*

###### Equity securities

###### Banks

###### Other sectors

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**Standard Components**

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Debt securities  
Bonds and notes  
Banks  
Other sectors  
Money market instruments  
Banks  
Other sectors

*Liabilities*

Equity securities  
Banks  
Other sectors  
Debt securities  
Bonds and notes  
Banks  
Other sectors  
Money market instruments  
Banks  
Other sectors

**C. Financial derivatives**

*Assets*

Banks  
Other sectors

*Liabilities*

Banks  
Other sectors

**D. Other investment**

*Assets*

Trade credits  
Loans  
Banks  
Other sectors  
Currency and deposits  
Banks  
Other sectors  
Other assets  
Banks  
Other sectors

*Liabilities*

Trade credits  
Loans  
Banks  
Other sectors  
Currency and deposits  
Banks  
Other sectors  
Other liabilities  
Banks  
Other sectors

**E. Reserve assets (net change)**

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**NET ERRORS AND OMISSIONS**

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**Overall Balance of Payments**

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