



Balance of Payments (BoP) Statistics

Education Bureau Webinar (CDI020231225)
Presented by Census and Statistics Department
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Agenda

1. Brief refresher

- Three accounts
- Resident v. non-resident
- 1 transaction, 2 entries

2. Sign change

- Why change?
- What changed?
- So what?

3. Analysing BoP statistics

- Global comparison
- HK's current account
- HK's financial account

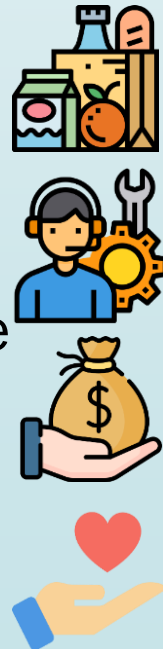


1 Brief refresher on BoP concepts

BoP comprises three accounts. They record different types of transactions between residents and non-residents.

Current account

- Goods
- Services
- Primary income
(external factor income)
- Secondary income
(current transfers)



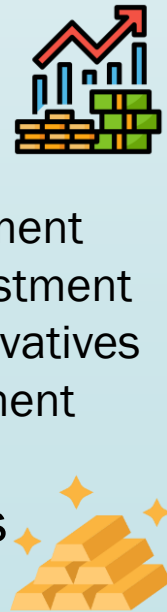
Capital account

- Capital transfers
- Non-produced, non-financial assets



Financial account

- Financial non-reserve assets
 - Direct investment
 - Portfolio investment
 - Financial derivatives
 - Other investment
- Reserve assets



Individuals and enterprises are classified as residents or non-residents depending on their centre of economic interest.

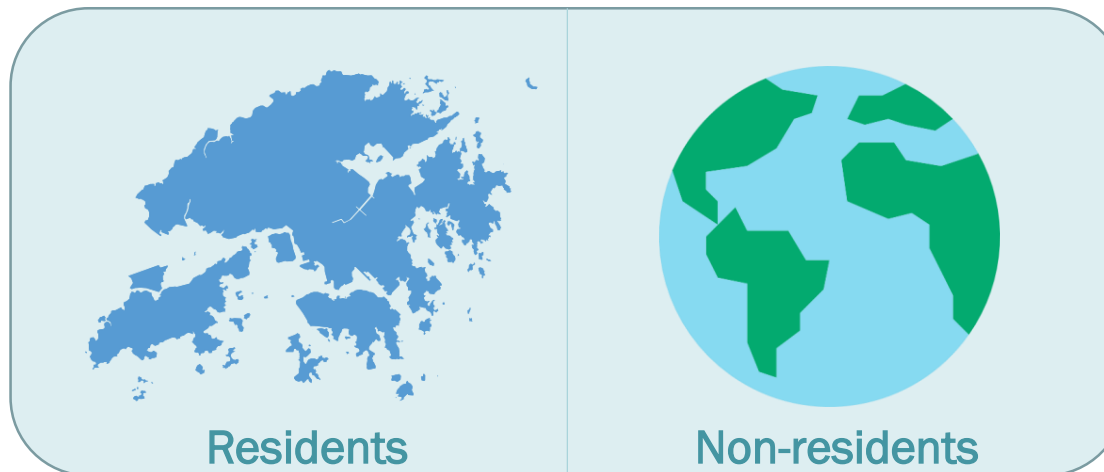
From Hong Kong's perspective

An individual / enterprise is a resident of one and only one economic territory.

Hong Kong residents (for BoP purposes) are:

Individuals whose households are located in Hong Kong. They have stayed or intend to stay for **more than a year**. What about

- Foreign workers?
- Foreign students?



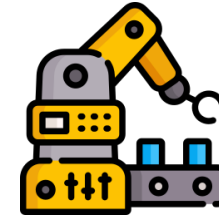
Enterprises which are **legally constituted and registered** in Hong Kong. What about:

- Offshore companies?
- HK branch of multinational companies?

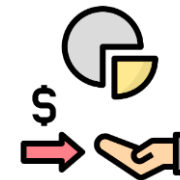


BoP transactions: between residents and non-residents. Are the following BoP transactions?

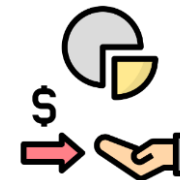
Example 1. A *Hong Kong* retailer imports goods from a *Mainland* manufacturer.



Example 2. *Hong Kong* residents' subscription of IPO H-shares of a *Mainland* company.



Example 3. Sale and purchase of H-shares between *Hong Kong* residents.



Under the double-entry accounting system, each transaction is accounted for by two entries. The two entries could be in the same or in different accounts.

Example 1: Holiday spending

- A Hong Kong tourist savours an Omakase meal in Tokyo
- Settles the bill in JPY



Current account: services

Financial account: other investment

Example 2: Donation of goods

- A Hong Kong company produces thermal blankets
- Sends them to Turkey in support of earthquake relief



Current account: goods

Current account: secondary income

Example 3: Purchase of stocks

- A Hong Kong investor subscribes IPO H-shares
- Settles the purchase in HKD



Financial account: portfolio investment

Financial account: other investment

Transactions do not necessarily involve money;
and do not necessarily involve foreign currency.



2 New sign convention and its implications

New sign convention: Background

2009

IMF published updated BoP compilation manual, including the introduction of a new sign convention.

June 2023

C&SD adopted new sign convention.

2012

C&SD implemented updated manual, but decided to retain old sign convention.

Early 2025

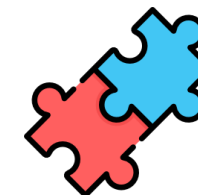
IMF to publish another update on BoP manual.



Why change?

Rationale for adopting the new sign convention

- **International standards:** the new sign convention is now widely adopted in many economies
 - Brings Hong Kong in line with international standards; improves comparability of statistics
- **Compatibility:** with other macroeconomic statistics
 - Ensures consistency with national accounts and international investment position statistics
- **Simpler interpretation:** BoP statistics may become more intuitive
 - Promotes better understanding for the general public



What changed?

Current account/Capital account: Positive debits

(HK\$ million)	<u>2022 Q4</u>	Old	New
Current account		59,662	59,662
Credit		1,737,991	1,737,991
Debit		-1,678,329	1,678,329
Goods		1,237	1,237
Credit		1,153,652	1,153,652
Debit		-1,152,415	1,152,415
Services		26,745	26,745
Credit		164,782	164,782
Debit		-138,037	138,037
Primary income		35,418	35,418
Credit		415,082	415,082
Debit		-379,664	379,664
Secondary income		-3,738	-3,738
Credit		4,475	4,475
Debit		-8,213	8,213
Capital account		-382	-382
Credit		2	2
Debit		-384	384

Credit items remain unchanged

Debit items switch signs

Balance items remain unchanged

New sign is consistent with imports in GDP statistics



What changed?

Financial account: Positive increase in assets

Assets items switch signs

Liabilities items remain unchanged

Balance items switch signs

(HK\$ million)	<u>2022 Q4</u>	Old	New
Financial account		-32,975	32,975
Financial non-reserve assets		-49,504	49,504
Direct investment		124,929	-124,929
Assets		-141,658	141,658
Liabilities		266,587	266,587
Portfolio investment		-143,507	143,507
Assets		-148,744	148,744
Liabilities		5,237	5,237
Financial derivatives		52,355	-52,355
Assets		281,727	-281,727
Liabilities		-229,372	-229,372
Other investment		-83,281	83,281
Assets		223,195	-223,195
Liabilities		-306,476	-306,476
Reserve assets		16,529	-16,529

Residents' net acquisition of \$142bn in direct investment assets

Old sign: \$142bn outflow of funds

New sign: \$142bn increase in direct investment assets

New sign is more compatible with IIP statistics



What changed?

Capital account/Financial account: Separated

(Old) Table 315-37004:
Capital and financial account

(HK\$ million)	<u>2022 Q4</u>	Old	New
Capital and financial account		-33,356	N/A
<i>Capital account</i>		-382	-382
Credit	2	2	2
Debit	-384	-384	384
<i>Financial account</i>		-32,975	32,975
Financial non-reserve assets	-49,504	-49,504	49,504
Reserve assets	16,529	16,529	-16,529

Capital account balance
remains unchanged

Financial account balance
switches signs

(New) Table 315-37001:
Current account and capital account

		New
Capital account	-382	-382
Credit	2	2
Debit	-384	384

(New) Table 315-37004:
Financial account

		New
Financial account	-32,975	32,975
Financial non-reserve assets	-49,504	49,504
Reserve assets	16,529	-16,529



Implications to interpretation?

Overall BoP = Change in reserve assets

Financial non-reserve assets + Reserve assets

Old

$$\text{Current account} + \text{Capital account} + \text{Financial account} = 0$$

BoP identity: result of double-entry accounting

$$\text{Current account} + \text{Capital account} + \text{Financial non-reserve assets} = - \text{Reserve assets}$$

Overall BoP

New

$$\text{Current account} + \text{Capital account} - \text{Financial account} = 0$$

$$\text{Current account} + \text{Capital account} - \text{Financial non-reserve assets} = + \text{Reserve assets}$$

Overall BoP

Overall BoP surplus = Increase in reserve assets
Overall BoP deficit = Decrease in reserve assets



Implications to interpretation?

Current account \approx Financial account

Old

≈ 0

Current account + Capital account + Financial account = 0

Current account \approx - Financial account

(HK\$ million)	2021	2022
Current account	339,429	296,871
Financial account	-363,230	-291,113

New

Usually increase (+ve)

Current account \approx Financial account

Usually surplus (+ve)

(HK\$ million)	2021	2022
Current account	339,429	296,871
Financial account	363,230	291,113

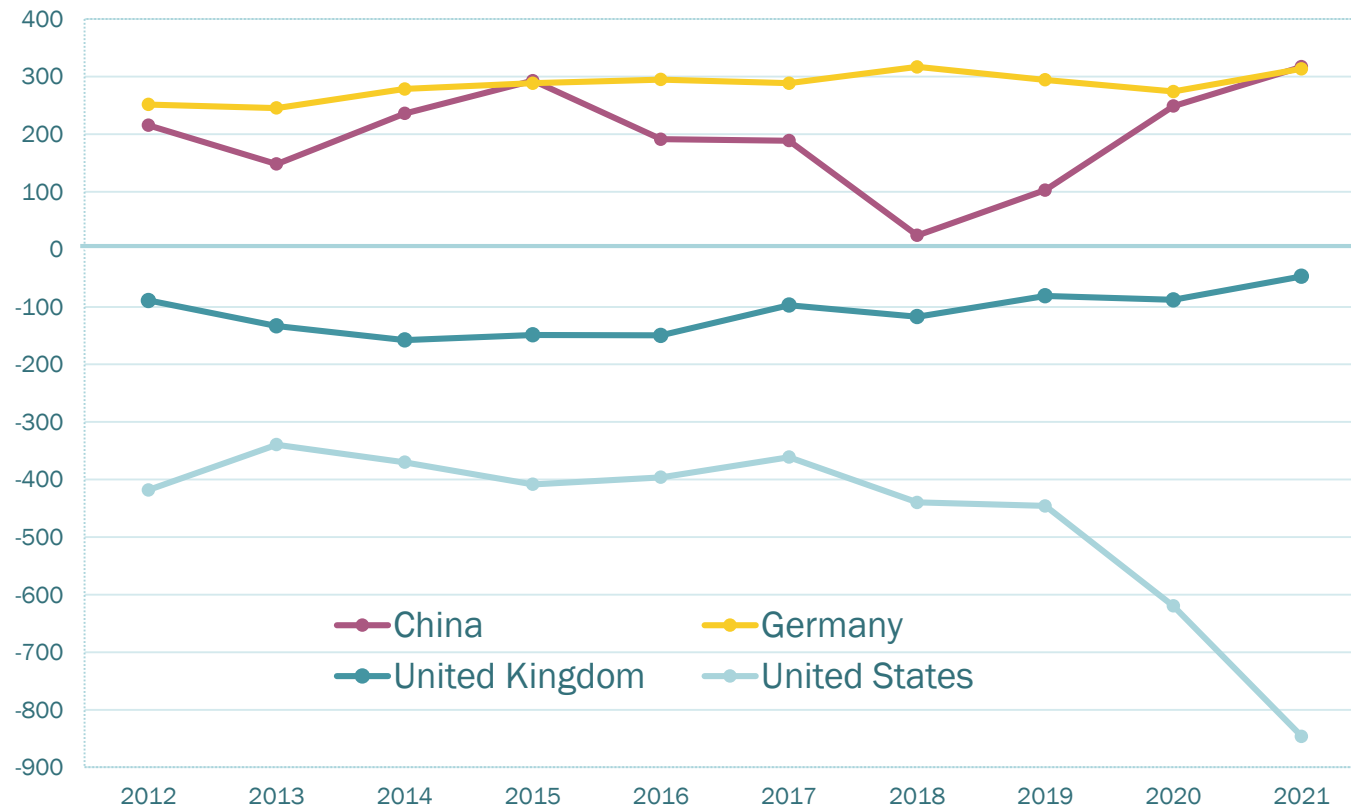
Interpretation: current account surplus allows Hong Kong to accumulate external financial assets.



3 What can we learn from BoP statistics

Some countries have consistent current account surpluses/deficits

Current account balance 2012-2021 (US\$bn)



Source: World Bank

China and Germany recorded consistent current account surpluses.

On the other hand, the US and the UK recorded consistent current account deficits.



Current account surplus/deficit: Nothing inherently good or bad

Current account balance = Saving – Investment

Identity resulted from rearranging
GNDI components

A surplus or deficit in itself does not indicate a good or bad scenario:

Current account	Implication	May be desirable	May be undesirable
<div>Surplus</div> <div>Saving > Investment</div>	Excess saving to acquire external financial assets.	The economy accumulates assets as a buffer against financial volatilities.	Reflects a low level of domestic investment.
<div>Deficit</div> <div>Saving < Investment</div>	Excess investment funded by external financial liabilities.	The economy receives funding from foreigners for domestic investment to grow economy.	Foreign funding eventually needs to be paid back. Reflects low level of saving.

Occasional surplus/deficit, consistent with economic fundamentals, may not be an issue.

However, excessive/prolonged surplus may indicate underinvestment in the economy; excessive / prolonged deficit may adversely hit an economy when liabilities built up are required to be repaid.



IMF's external sector assessment shows that Hong Kong's current account balance is "in line with fundamentals".

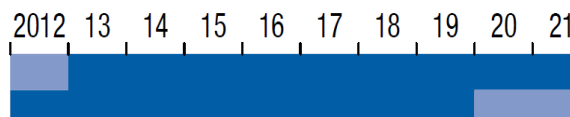
Too large a surplus

Balance about right

Too large a deficit

Stronger than Implied by Fundamentals¹

Singapore
Germany



Broadly in Line with Fundamentals¹

India
Hong Kong SAR



Weaker than Implied by Fundamentals¹

United States
Canada



Source: IMF staff assessments.

¹Grouping and ordering based on economies' excess imbalance during 2021.

Policy recommendation excerpts

Singapore: "Increase public investment [...] to help reduce external imbalances over the medium term".

Hong Kong: "ensure medium-term fiscal sustainability [...] maintain policies to preserve competitiveness".

US: "Implement fiscal consolidation over the medium term [...] resolve trade and investment disagreements".

Hong Kong has consistently been rated "in line" in the past ten years.

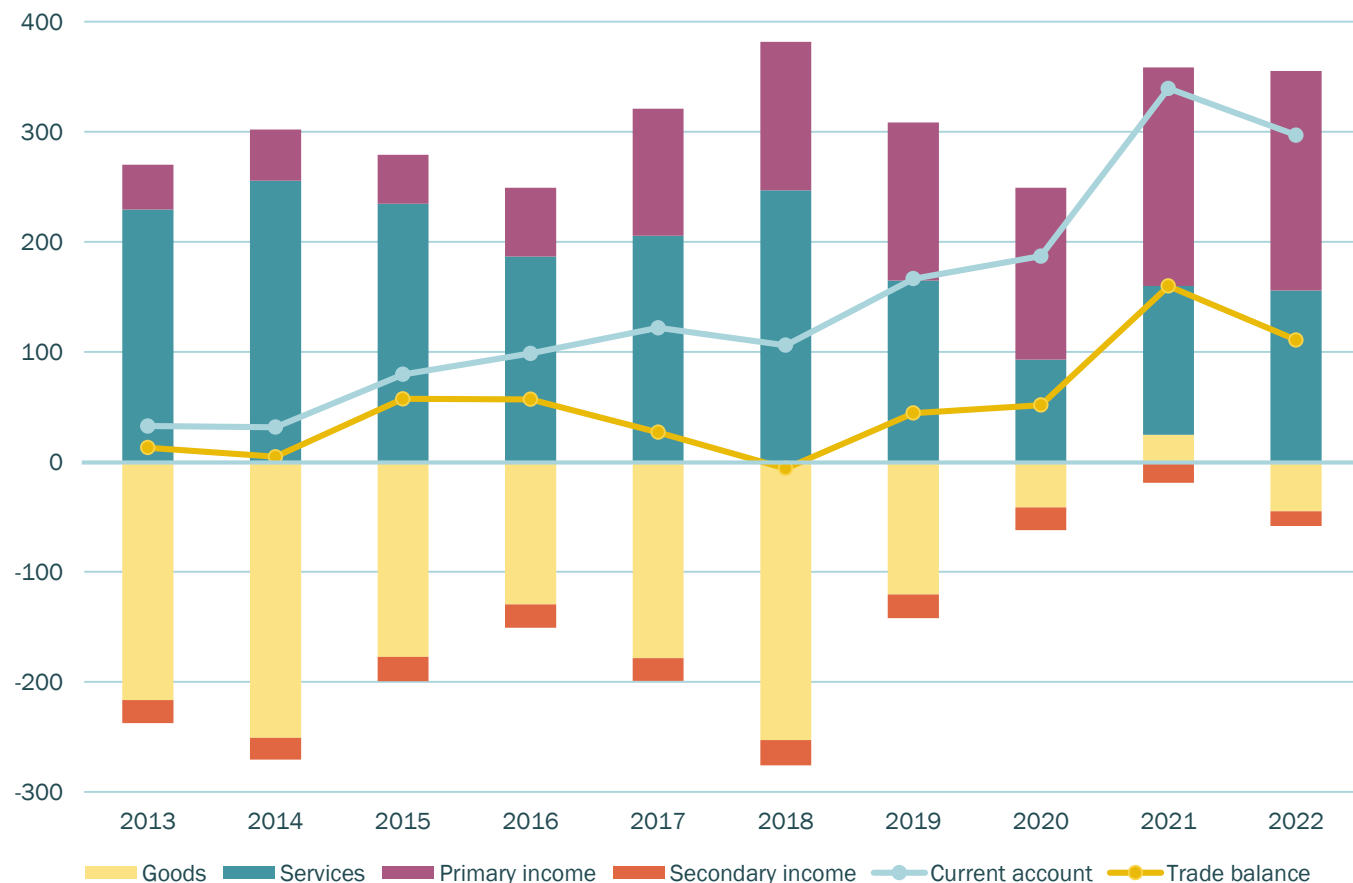


Source: External Sector Report 2022, IMF



Hong Kong's current account surplus: driven by primary income and trade surplus

(HK\$bn)



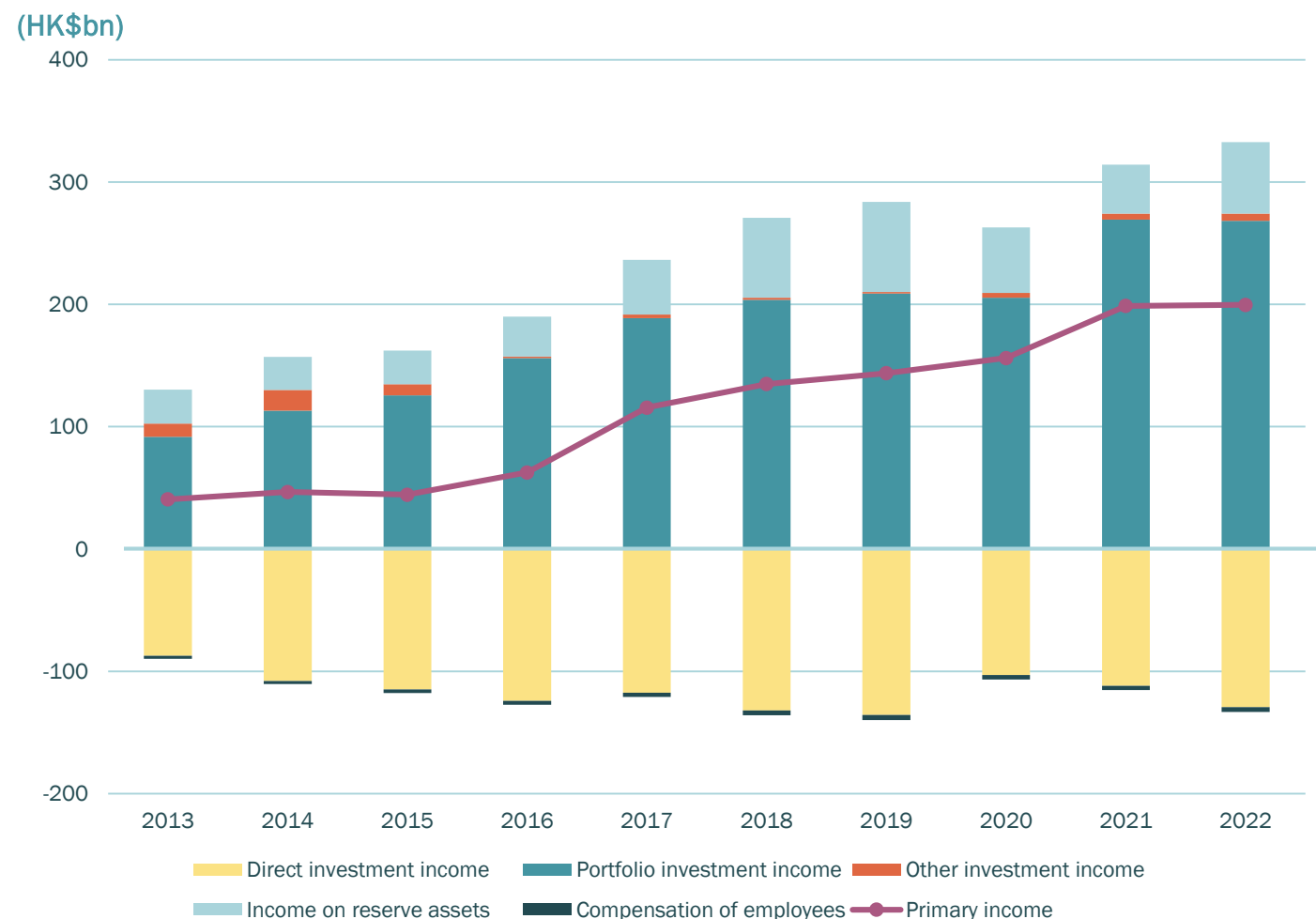
The widening of Hong Kong's current account surplus in the past ten years was mainly driven by the rise in **Primary Income**.

Hong Kong's trade balance has also widened in recent years. Typically, services surplus and goods deficit were recorded.

Analysing the economic situation of our major trading partners (US, China, Singapore, Japan) could shed light on our trade performance.



Hong Kong's primary Income inflow: Mostly portfolio investment income



The rise of Hong Kong's primary income inflow was in turn driven by the notable increase in portfolio investment income.

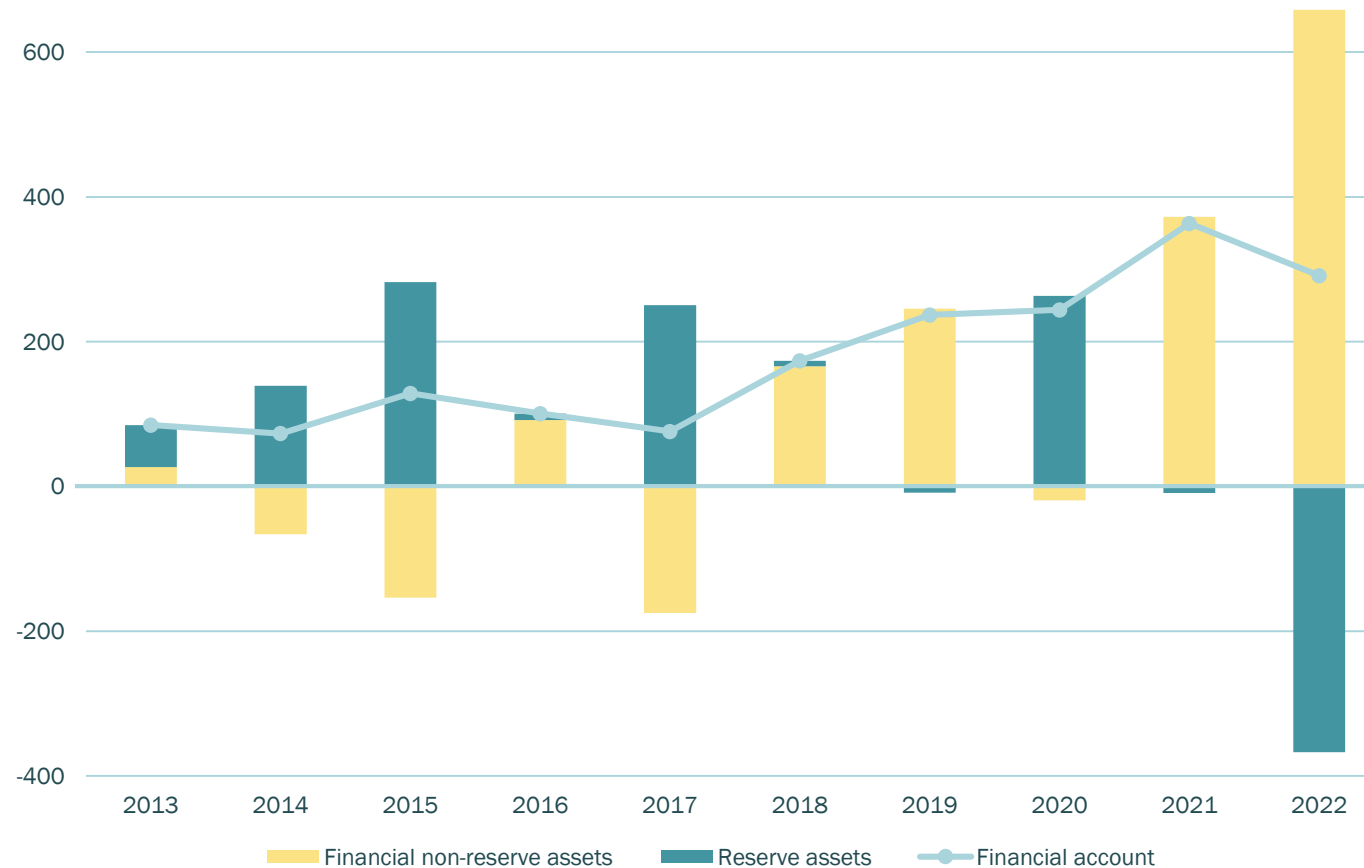
Hong Kong recorded a stable direct investment income outflow in the past ten years. This partly offsets the portfolio investment income inflow.

Detailed analysis of the primary income components can inform us about our investment returns and payments.



Hong Kong's financial account: External assets held by market participants or monetary authority

(HK\$bn)



Hong Kong's current account surplus allows us to accumulate more external assets. The breakdown here shows who gets hold of these assets.

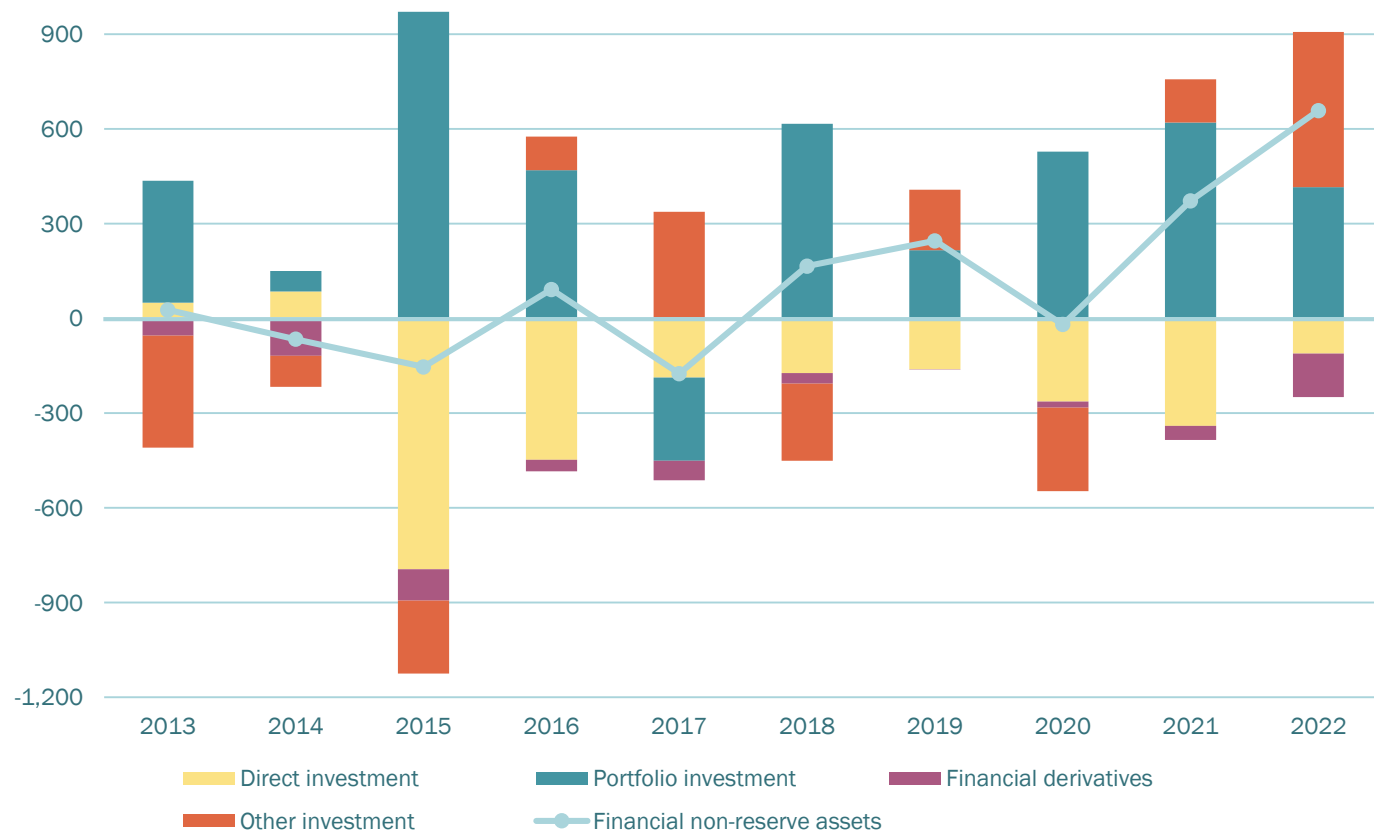
An increase in financial non-reserve assets means that market participants have acquired more external assets.

An increase in reserve assets means that the Hong Kong Monetary Authority has acquired more foreign assets.



Hong Kong's financial non-reserve assets: How are external assets allocated

(HK\$bn)



Analysing the breakdown of financial non-reserve assets gives us an idea of where market participants have decided to allocate funds.

Funds are mostly allocated into portfolio investment. This also explains why our portfolio investment income has risen.

The decrease in direct investment reflects that Hong Kong is a net receiver of foreign direct investment.

More granular data within categories, by types of instrument, by sector are available for further analysis.



Summary

1. Brief refresher

- Reminder of what goes into the three accounts: current account, capital account, and financial account.
- Review of what constitutes a BoP transaction.
- Double-entry system: each transaction is recorded by two entries, which may or may not be in the same account.

2. Sign change

- Adopting the new sign convention brings us in line with international standards and hopefully provides a simpler interpretation for BoP statistics.
- The most significant change is the sign change in the financial account.
- Implications: current account and financial account now move in the same direction; overall BoP and reserve assets now move in the same direction.

3. Analysing BoP statistics

- A current account surplus or deficit is not inherently good or bad. IMF provides assessment on the size of current account: Hong Kong is considered to be in line with its overall economy.
- Hong Kong's current account surplus is increasingly driven by primary income inflow in addition to the trade surplus.
- Hong Kong's financial account shows an accumulation of external financial assets, mostly in portfolio investment.

