



# **Balance of Payments (BoP) Statistics**

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Education Bureau Webinar (CDI020231225)  
Presented by Census and Statistics Department  
4 July 2023



# Agenda

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## 1. Brief refresher

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

## 2. Sign change

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

## 3. Analysing BoP statistics

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- 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.

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?



From Hong Kong's perspective



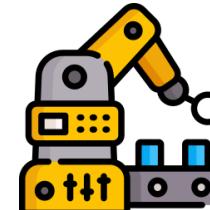
**Enterprises** which are **legally constituted and registered** in Hong Kong. What about:

- Offshore companies?
- HK branch of multinational companies?

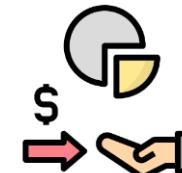


# BoP transactions: between residents and non-residents. Are the following BoP transactions?

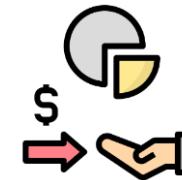
**Example 1.** A Hong Kong retailer imports goods from a *Mainland* manufacturer.



**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

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## 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

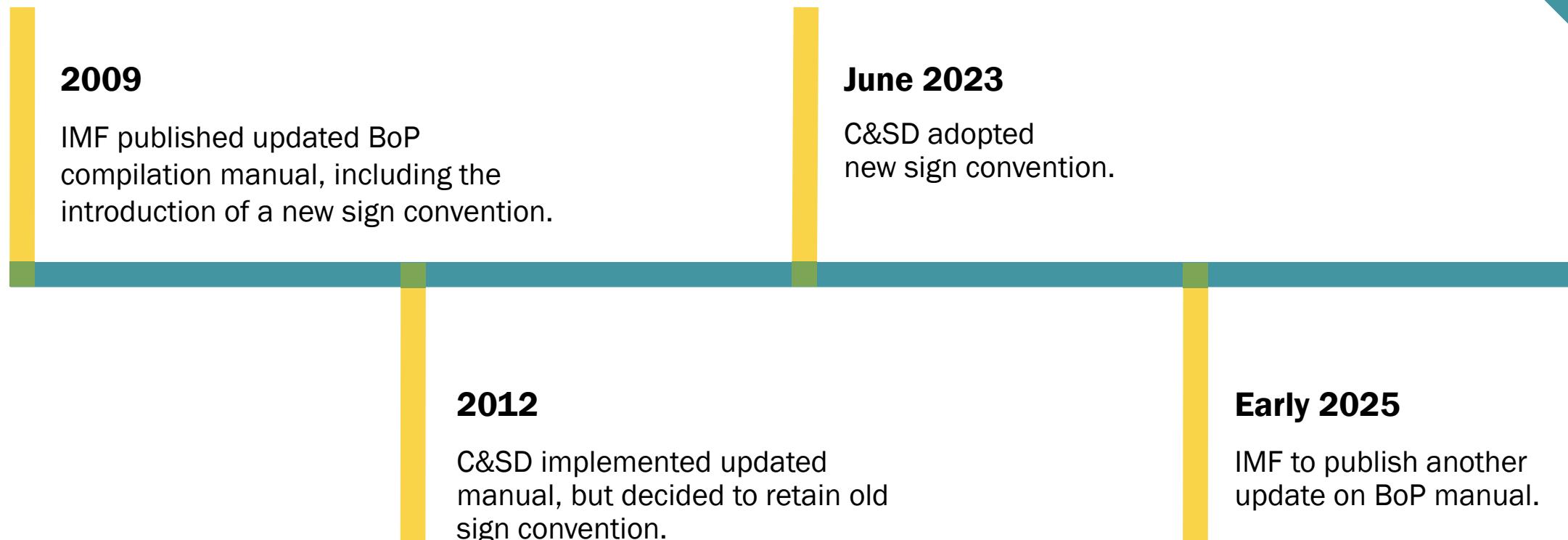
Financial account: other investment

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



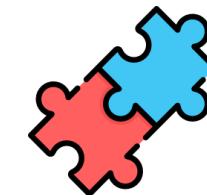
## 2 New sign convention and its implications

# New sign convention: Background



# 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)	2022 Q4	Old	New
Current account	59,662	59,662	
Credit	1,737,991	1,737,991	
Debit	-1,678,329	1,678,329	
<i>Goods</i>	1,237	1,237	
Credit	1,153,652	1,153,652	
Debit	-1,152,415	1,152,415	
<i>Services</i>	26,745	26,745	
Credit	164,782	164,782	
Debit	-138,037	138,037	
<i>Primary income</i>	35,418	35,418	
Credit	415,082	415,082	
Debit	-379,664	379,664	
<i>Secondary income</i>	-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)	2022 Q4	Old	New	
Financial account	-32,975	32,975		
<i>Financial non-reserve assets</i>	-49,504	49,504		
Direct investment	124,929	-124,929		Residents' net acquisition of \$142bn in direct investment assets
Assets	-141,658	141,658		
Liabilities	266,587	266,587		
Portfolio investment	-143,507	143,507		Old sign: \$142bn outflow of funds
Assets	-148,744	148,744		
Liabilities	5,237	5,237		New sign: \$142bn increase in direct investment assets
Financial derivatives	52,355	-52,355		
Assets	281,727	-281,727		
Liabilities	-229,372	-229,372		
Other investment	-83,281	83,281		New sign is more compatible with IIP statistics
Assets	223,195	-223,195		
Liabilities	-306,476	-306,476		
<i>Reserve assets</i>	16,529	-16,529		



# What changed?

## Capital account/Financial account: Separated

(Old) Table 315-37004:

Capital and financial account

Capital account balance  
remains unchanged

Financial account balance  
switches signs

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

(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
Financial non-reserve assets	32,975
Reserve assets	49,504



# Implications to Interpretation?

## Overall BoP = Change in reserve assets

Old

Financial non-reserve assets + Reserve assets

Current account + Capital account + Financial account = 0

BoP identity: result of double-entry accounting

Current account + Capital account + Financial non-reserve assets = - Reserve assets

Overall BoP

New

Current account + Capital account - Financial account = 0

Current account + Capital account - Financial non-reserve assets = + 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

$\approx 0$

Current account + Capital account + Financial account = 0

Current account  $\approx$  - Financial account

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

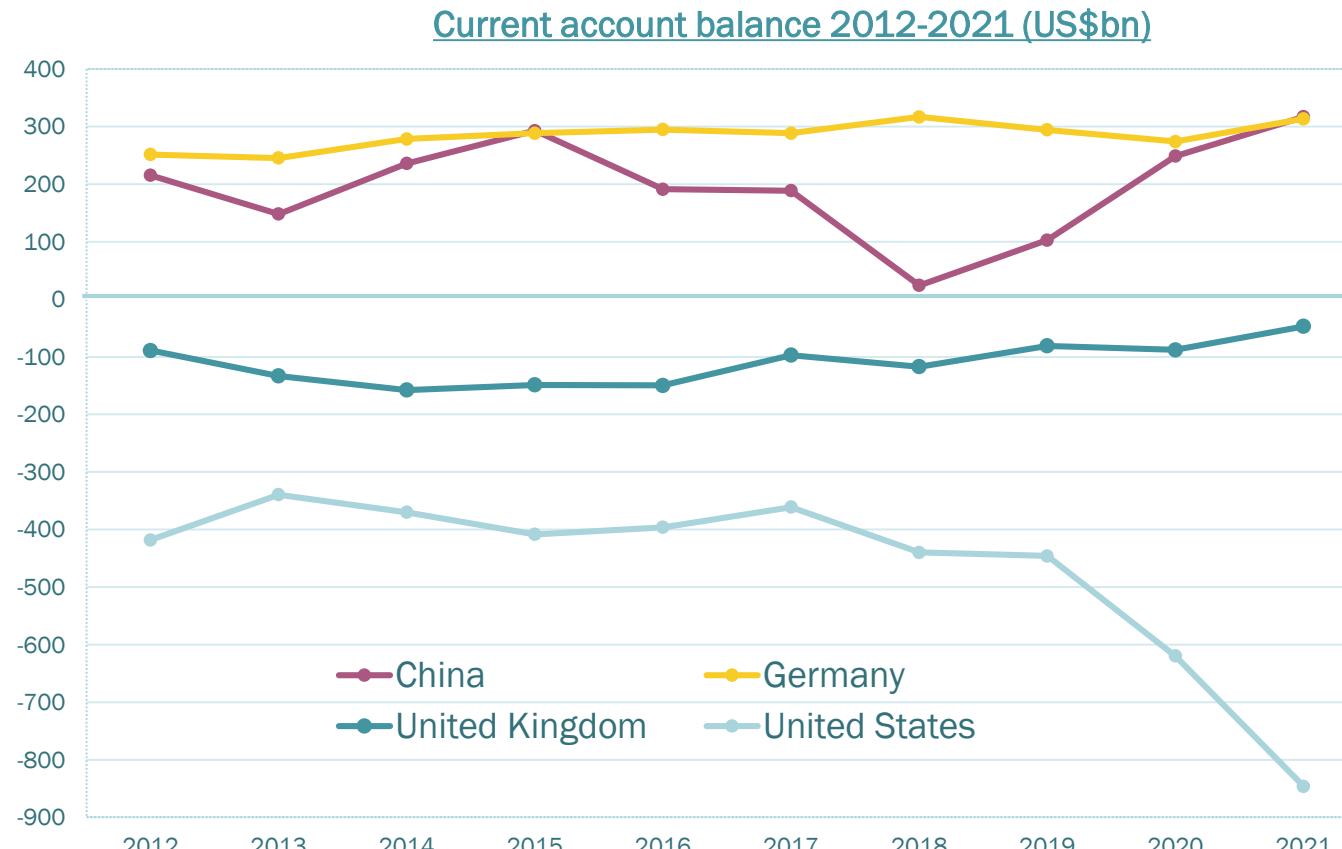
(HK\$ million)	2021	2022
Current account	339,429	296,871
Financial account	363,230	291,113

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



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
Surplus  Saving > Investment	Excess saving to acquire external financial assets.	The economy accumulates assets as a buffer against financial volatilities.	Reflects a low level of domestic investment.
Deficit  Saving < Investment	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.

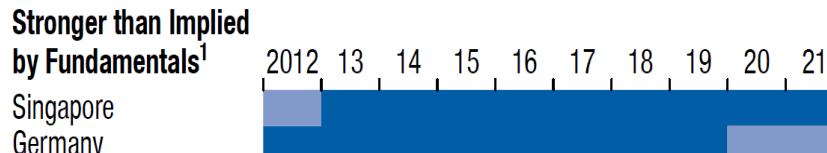
Occasional surplus/deficit, consistent with economic fundamentals, may not be an issue.

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



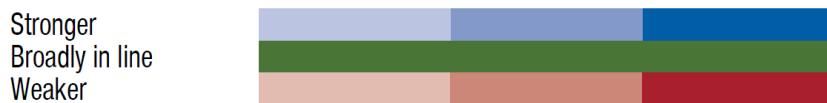
Balance about right



Too large a deficit



Moderately Substantially



Source: IMF staff assessments.

<sup>1</sup>Grouping and ordering based on economies' excess imbalance during 2021.

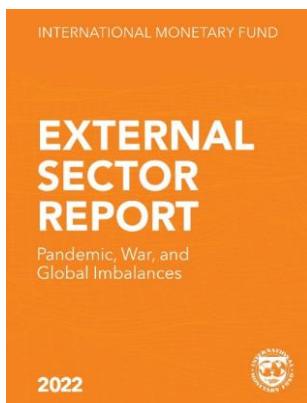
## Policy recommendation excerpts

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”.

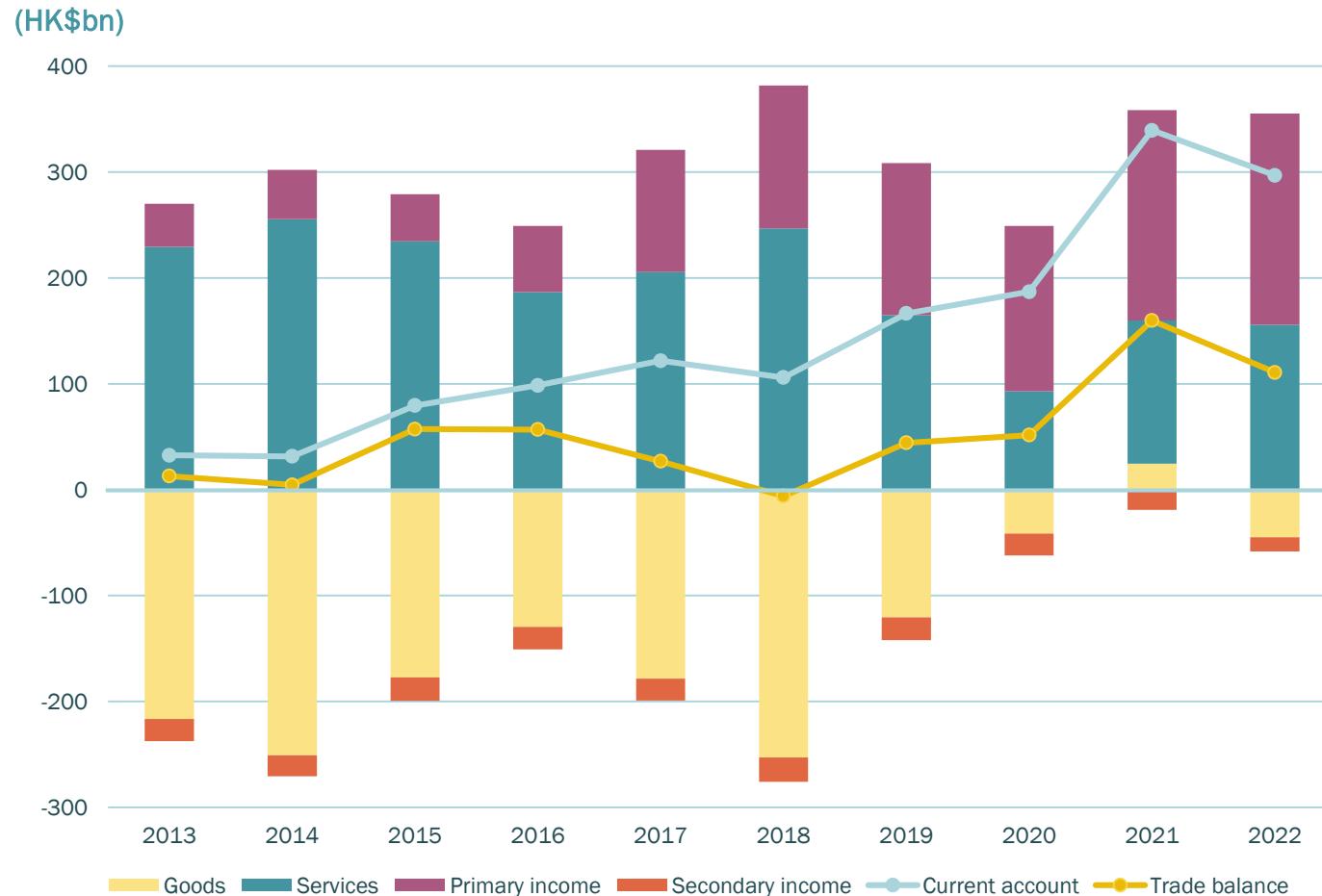
Hong Kong has consistently been rated “in line” in the past ten years.



Source: *External Sector Report 2022, IMF*



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



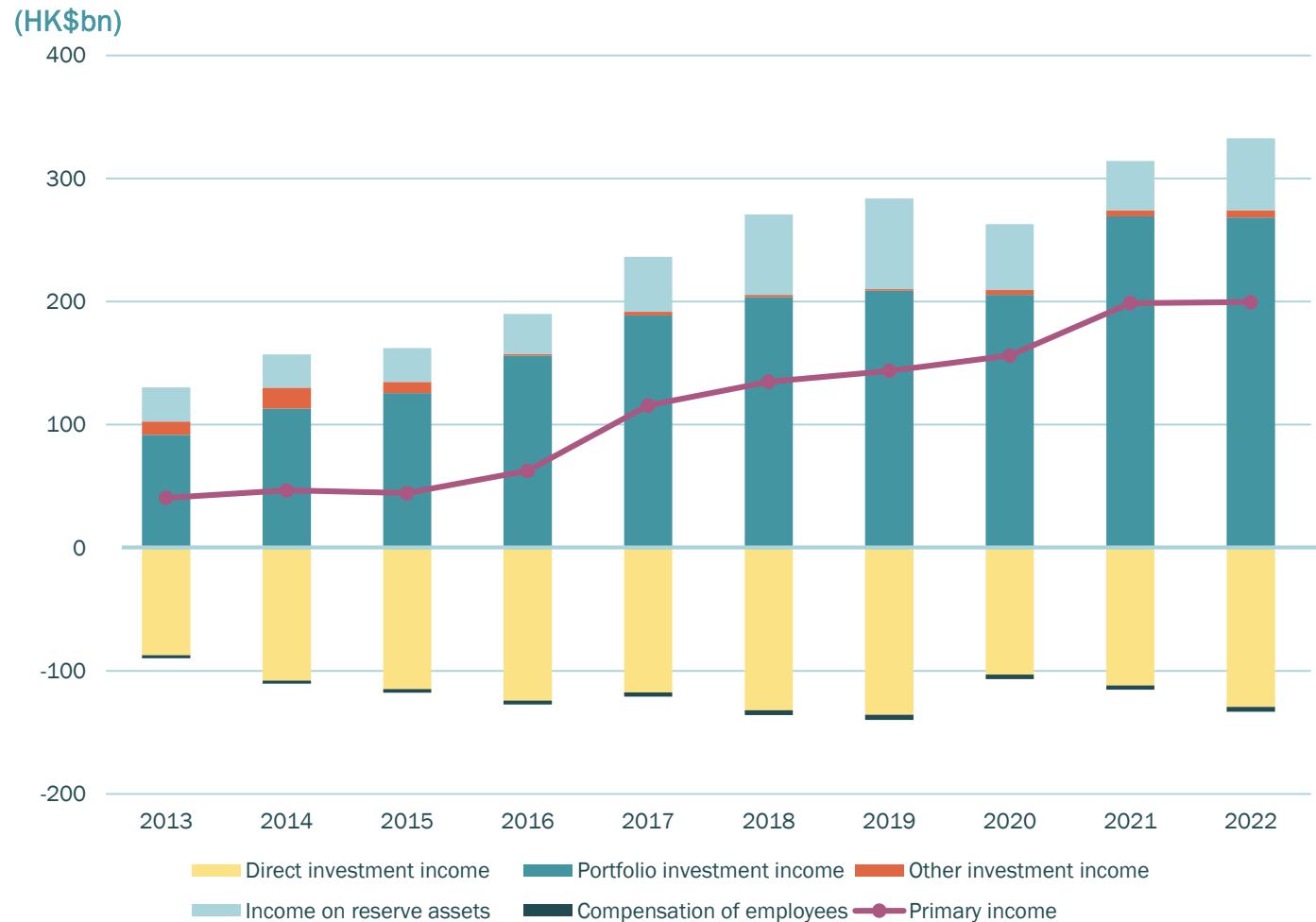
The widening of Hong Kong's current account surplus in the past ten years was mainly driven by the rise in Primary Income.

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



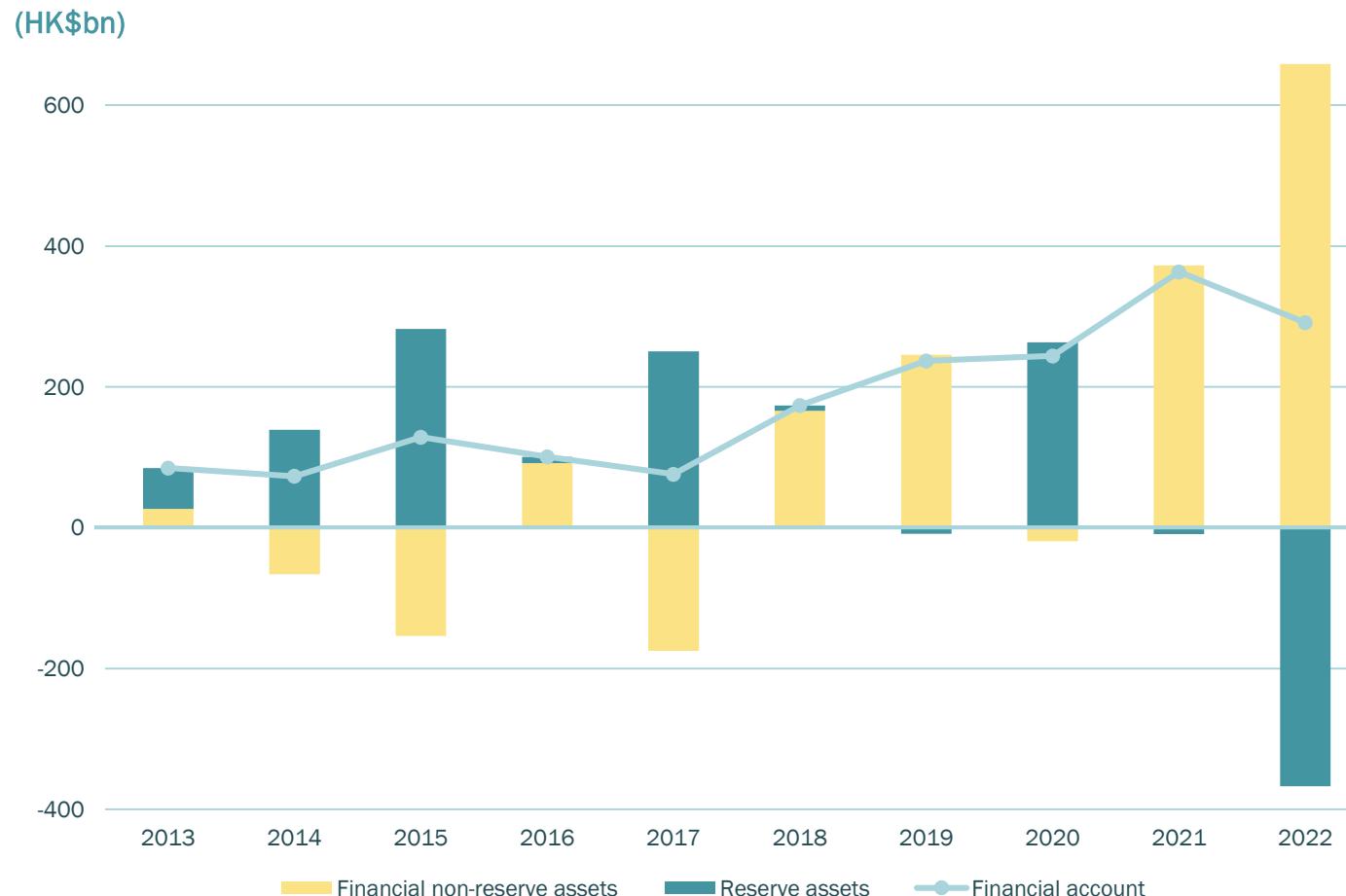
The rise of Hong Kong's primary income inflow was in turn driven by the notable increase in portfolio investment income.

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



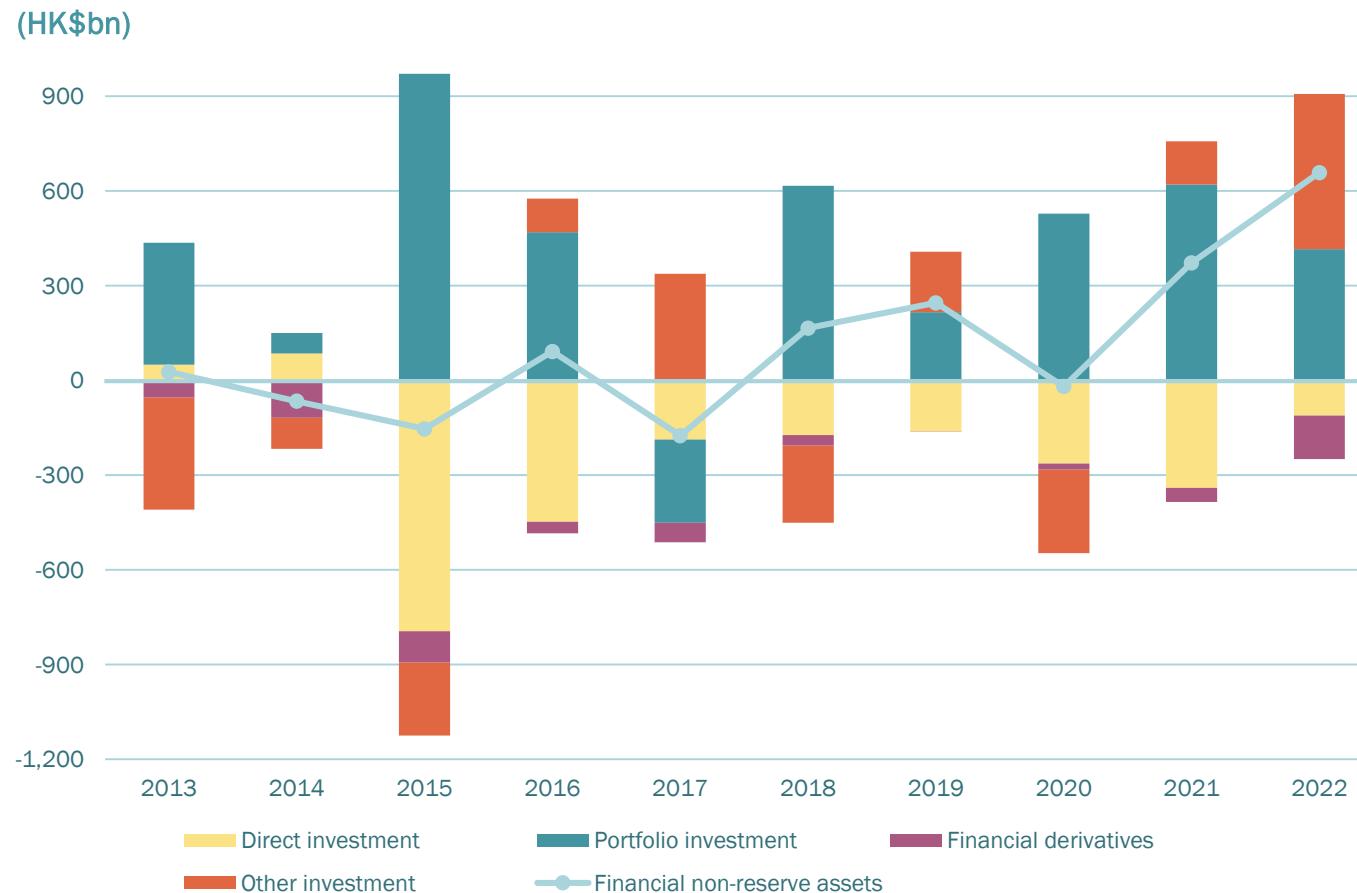
Hong Kong's current account surplus allows us to accumulate more external assets. The breakdown here shows who gets hold of these assets.

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



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

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## 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

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- 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

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- 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.

