Balance of Payments Statistics of Hong Kong

24 May 2013
Outline

1. Latest development of Balance of Payment (BoP) statistics
   - Goods and services
   - Primary income and secondary income

2. Interpretation of current account statistics
   - Trade and income balance approach
   - Saving-investment approach
   - Illustration: Hong Kong and selected economies

3. Q&A
What is BoP?

- A statistical statement that systematically summarises, for a specific time period (typically a year or a quarter), the economic transactions of an economy with the rest of the world (i.e. between residents and non-residents)
Structure and main components of a BoP account

(a) Current account
- Measures the flows of goods, services, primary income and secondary income between residents and non-residents

(b) Capital and financial account
International standards of BoP statistics

International Monetary Fund’s sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)
Latest development of BoP statistics of Hong Kong

Goods and services

● Adoption of the change of ownership principle in recording goods sent abroad for processing and merchanting

Primary Income and secondary income

● Adoption of terminology consistent with United Nation’s 2008 System of National Accounts (SNA)
Goods & services: change of ownership principle

Concept
- Old standard: trade is recorded when goods cross customs boundary
- Change of ownership principle: trade occurs when buying and selling activities take place (i.e. ownership of goods is transferred)

Classification
- Goods sent abroad for processing are not recorded as trade in goods because they do not involve actual buying and selling activities (i.e. no change of ownership)
Goods & services: change of ownership principle

Classification

● Processing fees are recorded as trade in services (imports of manufacturing services)

● Merchanting: value of goods sold is recorded as exports of goods, while the value of goods acquired is recorded as negative exports of goods, though the goods have not passed through Hong Kong

● Overall balance of trade in goods and services remains unchanged
Impact of implementing the change of ownership principle

- Trade in goods balance: generally changed from **deficit to surplus** (except 2011 & 2012)
Impact of implementing the change of ownership principle

- Trade in services balance: generally changed from **surplus to deficit** (except 2009 – 2012)
Impact of implementing the change of ownership principle

- Better reflect genuine international trade flows
- Facilitate analysis of impact of globalisation on international trade

Example: iPhone

![Image of iPhone disassembled with flags and components labeled: Infineon Camera Module, Samsung SDRAM, Toshiba Display Module, Final assembly.]

- Infineon Camera Module
- Samsung SDRAM
- Toshiba Display Module
- Final assembly
The term “primary income” has been adopted to replace the former term “factor income”

The term “secondary income” has been adopted to replace the former term “current transfers”
Primary income

- Shows amounts receivable and payable abroad in return for providing / obtaining use of labour, financial resources or natural resources to / from non-residents
- Comprises compensation of employees and investment income
  - Compensation of employees refers to labour income and comprises wages, salaries and other remuneration whether paid in cash or in kind
  - Investment income includes direct investment income, portfolio investment income, income on reserve assets and other investment income
Secondary income

- Records current transfers between residents and non-residents
- Transactions: exchanges vs transfers
- Transfers are transactions without the receipt of equivalent economic values in return
- Current transfers are transactions in real or financial resources that are likely to be consumed shortly
- Examples include workers’ remittances, donations, official assistance, social benefits, pensions, etc.
- Shows the role of various types of current transfers in the process of income distribution
Gross National Income (GNI)

- Formerly named as Gross National Product (GNP)
- GNI is a measure of the income earned by residents of an economy from engaging in various economic activities, irrespective of whether the economic activities are carried out within or outside the economic territory of the economy.

\[ \text{GNI} = \text{GDP} + \text{Net external primary income flows} \]
\[ = \text{GDP} + \text{Primary income earned by residents from outside the economic territory} \]
\[ - \text{Primary income earned by non-residents from within the economic territory} \]
Gross National Disposable Income (GNDI)

- GNDI measures the total income (including income from domestic production, primary income and secondary income) available to an economy for final consumption and investment.

\[
\text{GNDI} = \text{GDP} + \text{Net external primary income flows} + \text{Balance of secondary income (Net current transfers)}
\]

\[
= \text{GNI} + \text{Net current transfers}
\]
Dissemination of new BoP statistics

- Entire data series of BoP have been revised since September 2012
- Conceptual and methodological details of the technical revision are detailed in the report *Balance of Payments, International Investment Position and External Debt Statistics of Hong Kong, Second Quarter 2012*

Interpretation of current account statistics
Current account balance

- Current account records flows of goods, services, primary income, and secondary income between residents and nonresidents.
- Current account balance shows the difference between the sum of exports and income receivable and the sum of imports and income payable.
- Current account balance can be interpreted using two approaches:
  - Trade and income balance approach
  - Saving-investment approach
Trade and income balance approach

Current account balance
= Trade in goods balance
+ Trade in services balance
+ Primary income balance
+ Secondary income balance
Trade and income balance approach

Current account balance of Hong Kong and its components
Trade and income balance approach

- For many economies including Hong Kong, trade balance itself is the main thrust of the current account balance.
- Net income balance (including primary and secondary income) usually only contributes a relatively small fraction of the current account balance.
By the national income accounting identity, current account balance can be viewed as the gap between national savings and domestic investment:

\[ \text{GNDI} = \text{GDP} + \text{Net external primary income flows} + \text{Net current transfers} = \text{Consumption} + \text{Investment} + \text{Exports} - \text{Imports} + \text{Net external primary income flows} + \text{Net current transfers} = \text{Consumption} + \text{Investment} + \text{Current account balance} \]
Current account balance
= GNDI – Consumption – Investment
= (GNDI – Consumption) – Investment
= National savings – Investment

● Current account balance also refers to the saving-investment gap
● Savings-investment approach stresses how macroeconomic factors, through domestic consumption and investment decisions, can ultimately determine the current account balance
Current account surplus:
    national savings > domestic investment
Current account deficit:
    national savings < domestic investment

- A current account surplus (deficit) reflects a low (high) level of consumption or investment or both relative to gross national disposable income
Disposition of current account surplus

- **Accumulation of external assets**
  - e.g. increase in offshore deposits, purchase of foreign debt securities

- **Reduction of external liabilities**
  - e.g. repayment of loans to non-residents
Financing of current account deficit

- Depletion of external assets
  - e.g. withdrawal of offshore deposits, sale of foreign equity securities

- Increase in external liabilities
  - e.g. issuance of debt securities to non-residents
## Current account balance of selected economies

Data extracted from IMF’s Principal Global Indicators (PGI) website
http://www.principalglobalindicators.org/default.aspx

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Recent trend of current account balance of Hong Kong

● Hong Kong’s current account balance has declined in recent years, from recording a surplus equivalent to 15% of GDP in 2008 to 1% of GDP in 2012

Trade and income balance approach

● Hong Kong’s trade surplus narrowed, from 10% of GDP in 2008 to 0.2% of GDP in 2012
  - much stronger imports of goods than exports of goods
  - partly offset by growth of services exports, particularly surging inbound tourist spending
Savings-investment approach

● Strong domestic consumption
  - Private consumption has increased at an average annualised rate of 6.3% since the second quarter of 2009
  - Domestic consumption has grown faster than gross national disposable income
  - Decrease in savings rate to 27% of GDP in 2012 from 36% of GDP in 2008

● Robust domestic investment
  - Investment has experienced double-digit growth since 2010
  - Increase in investment rate to 26% of GDP in 2012 from 21% of GDP in 2008
Driving forces of recent consumption growth in Hong Kong

Standard macroeconomic theories:

● Income effect
  - Higher income induces more consumption

● Wealth effect
  - Rising asset prices make consumers wealthier or feel wealthier, thus inducing more spending
  - Households have more collaterals against which to borrow and spend

● Inter-temporal substitution effect
  - A lower real interest rate will induce consumers to spend more today because current consumption becomes less costly compared with future consumption
Driving forces of recent consumption growth in Hong Kong

- The wealth effect and Inter-temporal substitution effect are key factors
  - Net housing wealth
  - Negative real interest rates
Educational booklets on GDP and BoP statistics

Understanding the Concepts of Gross Domestic Product and Gross National Income


Interpretation and Uses of Statistics on Balance of Payments, International Investment Position and External Debt
Further information

C&SD website:  www.censtatd.gov.hk
Email:  bop@censtatd.gov.hk

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