

Enhancing the Philippines' External Sector Statistics through Cross Border Transactions Surveys

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Abstract

The liberalization of foreign exchange regulations in the Philippines starting in the second half of 1992 turned out to be a major challenge to balance of payments (BOP) compilers as the bank reporting system, which is the main source of data for the external sector accounts, is no longer able to fully capture all foreign exchange transactions. Administrative data should have compensated for the weaknesses of the bank reporting system, but the availability, frequency and timeliness of data from some data-providing agencies posed a big problem. To address some of the gaps uncovered in statistical compilation, the Bangko Sentral ng Pilipinas (BSP) introduced in the last quarter of 2000 cross border transactions surveys that aim to collect information on transactions of residents with non-residents that do not pass the banking system. These transactions include those involving intercompany or offsetting accounts with parent companies abroad and those that are settled through offshore accounts of residents. While the initial intent was to encourage the participation in the survey of all companies with cross border transactions, the BSP had to limit the respondents to a relatively small sample size that is considered to contribute an appreciable amount to the BOP. This was so because aside from being too costly to administer in terms of manpower requirements, the survey suffers from a low participation rate given the absence of a legal authority by the BSP to collect data from non-financial corporations. This paper will discuss the problems in gathering inputs for BOP compilation, the benefits and constraints in using surveys as a data source to supplement the bank reports and other existing administrative data, as well as future plans to improve the administration of the cross border transactions surveys.

Key Words: liberalization of foreign exchange regulations, bank reporting system, administrative data, intercompany or offsetting accounts

1. Introduction

In August 1992, the Philippines completed the program that liberalized the system of foreign exchange controls and restrictions in the economy. The new regulations included, among others, the total lifting of foreign exchange surrender requirements and quantitative purchase restrictions on current account transactions. This was accompanied by trade and other foreign exchange reforms that involved the grant of the privilege for full retention of export proceeds and the liberalization of exporters' and producers' access to foreign currency deposit loans.

The country continued with the liberalization measures in 1993 in order to transform its foreign exchange system into a more efficient mechanism for allocating foreign exchange resources. Some of these measures were the grant of full freedom to exporters of goods and services to dispose of their exchange receipts as they see fit, lifting of quantitative restrictions on the amount of foreign exchange that may be purchased from banks for service payments, and grant of authority for full and immediate repatriation of foreign investments including profit remittances to encourage inward investments. In particular,

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foreign exchange receipts of residents from non-trade sources could, at their option, be sold for Philippine pesos to authorized agent banks or outside the banking system, retained or deposited in foreign currency accounts in the Philippines or abroad. Moreover, reportorial and documentary requirements on sales and purchases of foreign exchange were liberalized. Nonetheless, some restrictions on key capital accounts remained in place.

While the liberalization initiatives were supportive of economic recovery, they posed problems to statistical compilation of the external accounts. The country's balance of payments (BOP) used to be heavily dependent on the foreign exchange monitoring reports of banks. With the liberalization of foreign exchange regulations, the effectiveness of bank reports as a major source of data for BOP compilation weakened as not all foreign exchange transactions could be captured by banks in their monitoring system nor could they be validated in the absence of supporting documents. Misclassification of transactions is also possible. Further complicating the verification of foreign exchange transactions is the existence of a law that provides for the absolutely confidential nature of foreign currency deposits and prohibits any person, government official, bureau or office from examining, inquiring or looking into such foreign currency deposits, except upon the written permission of the depositor.

New and alternative sources of information had to be explored to strengthen BOP compilation. Administrative records of other government agencies that either have regulatory powers or are mandated by law to generate data on certain sectors in the economy were increasingly used as data sources of the BOP. These, too, however had limitations and were not adequate to address the data gaps.

This paper will discuss the introduction of the cross border transactions survey, the benefits and constraints in using surveys as a data source to supplement the bank reports and other existing administrative data, as well as future plans to improve the administration of these surveys.

2. Filling In Data Gaps through the Use of Cross Border Transaction Surveys

BOP compilation is the responsibility of the Bangko Sentral ng Pilipinas (BSP), the country's central monetary authority. Not only does the BOP supply information on the structural nature or causes of payments imbalances (if the country is running a BOP deficit) or sources of financing, it is also very useful for monetary policy setting given the availability of data on capital and other foreign exchange flows into or out of the economy as well as the links between exchange rates and current account and financial account flows. Timely, relevant and accurate data on the economy's interlinkages with the rest of the world became particularly very important as the BSP adopted inflation targeting as the framework for monetary policy formulation in January 2002. The shift to inflation targeting required intensive, and even forward-looking, information that are used in the BSP's suite of models to forecast inflation and in the regular, comprehensive assessment of factors affecting actual inflation.

Weaknesses in BOP compilation surfaced increasingly with the growing trend for globalization of transactions and the innovations happening in the international financial system, including the emergence of new financial instruments and arrangements among institutional units. Following a thorough evaluation of the requirements for BOP compilation, the BSP decided to employ new methods for the collection of data. The Cross Border Transactions Survey (CBTS) was introduced in the last quarter of 2000 to supplement the banks' foreign exchange monitoring system (also known as the International Transactions Reporting System or ITRS) as a source of information on residents' transactions with the rest of the world. It was intended to fill in some of the gaps in the monitoring system, specifically resident to non-resident transactions that do

not pass the banking system, including intercompany accounts and transactions that are settled through accounts abroad of residents.

Three types of surveys were conducted. CBTS1 or the Survey on Intercompany Accounts with Non-Residents collects information from exporters of electronics that have intercompany or offsetting accounts with their parent companies abroad or with other non-resident firms. Information requested from companies include receivables from and payables to affiliates/non-affiliates, actual receipts from and actual payments to affiliates/non-affiliates, trade credits with affiliates/non-affiliates, exports and imports of goods and services, income receipts and payments (such as salaries, allowances, interest on deposits, interest on credits and loans), insurance claims, direct investments, loans and credits to non-residents, deposits with non-resident banks, and other investments. The identification of target respondents was borne out of the fact that during the conceptualization of the CBTS, it was established that majority of companies that are exporting electronics, which are mostly members of the Semiconductors and Electronics Industry in the Philippines (SEIPI), have intercompany or offsetting accounts with non-residents. These companies became the priority target respondents as electronics exports in the Philippines at that time accounted for more than half (about 60 percent) of the country's total exports.

The second type of survey, CBTS 2, pertains to the Survey on Position and Transactions on Accounts with Non-Resident Banks (Banks Abroad). The initial target respondents were the top 100 non-financial corporations, which at that time accounted for a significant share of the total income of the top 2000 corporations in the Philippines based on records of the Securities and Exchange Commission.

Lastly, CBTS 3 refers to the Foreign Exchange Transactions Report of Build-Operate-Transfer (BOT)/Similar Project Companies. A study done by the BSP showed that majority of BOT companies were authorized to open and maintain offshore accounts, through which most of their transactions are coursed. Information such as interest on deposits, interest on foreign securities purchased, foreign loans, profits and dividends to non-resident investors, payments of interest and principal on loans/equity securities/debt securities, payments for various services accounts, and level and changes in deposits in their bank accounts abroad, were gathered from the monthly reports and added to the BOP compilation as these were not captured in the bank reporting system. The same types of data are collected in CBTS2.

While the sample size for the three Cross Border Transactions Surveys appear to be limited, it is considered to contribute an appreciable amount to the BOP as the transactions they cover represent an appreciable share of the level of transactions that cannot be captured in the existing reporting system.

The question is: Why did the BSP decide to use sample surveys rather than a census, or better yet, why not gather information from administrative-based records? Administrative data would have been a logical choice among the three types of data collection, namely, census, sample survey and administrative data. This is so because there is no sampling variance or variability to the statistics generated from administrative data which covers the entire population, trend analysis could be facilitated with the regular provision of data, and the problem of additional respondents' burden could be avoided. However, data on economic transactions of residents with the rest of the world are difficult to collect as some agencies that are either designated to produce the information or have supervisory or regulatory powers over the institutions for which data are needed are faced with some or all of the following problems:

(a) Manpower and/or financial resource constraints. Major statistical agencies have relatively small budget appropriations to carry out their programs and projects or even introduce the improvements. Some are not able to conduct regular surveys and/or release

the results on the designated periods. Others are undermanned or are faced with high employee turnover rates which prevent them from processing data and generating the required statistics at all, or on the prescribed release dates.

(b) Absence of a statistical unit or a clear mandate to generate statistics. Information that can be extracted from regulatory reports submitted to some agencies are not even processed as they do not have the mandate to produce the statistics although these are related to their operations. Consequently, these agencies have not pushed for the creation of statistical units in their organizational structure.

(c) Lack of management support to the production of statistics

(d) Change in leadership/management which affects the prioritization of statistical activities. While various statistics are produced by a number of agencies for their respective policy needs, the regular and timely availability of such are hampered by the choice of top management on which aspect of operations to be prioritized that would dictate the types of data that they will generate.

Notwithstanding the existence of Executive Order No. 352, entitled Designation of Statistical Activities That Will Generate Critical Data for Decision-Making of the Government and the Private Sector, strict enforcement of its provisions has not been effectively carried out. This executive issuance provides for the generation of critical and essential statistics required for social and economic planning/analysis through the conduct of nationwide censuses and surveys as well as the maintenance/processing of administrative-based records on a regular basis to allow for monitoring, time series analysis and forecasting by policy-makers. A major detriment to the full implementation of this particular regulation is the absence of a statistical law that allows the coordinating agency on statistical matters in the Philippines to monitor the adherence by agencies to the provisions of the Executive Order. The proposed Philippine Statistical Act is still awaiting passage by the Congress of the Philippines.

Administrative-based records are therefore not able to meet the gaps in BOP compilation. Some data are produced with a long lag or the frequency of data releases do not conform with those of the BOP needs, while others are not produced at all. This includes the non-availability of corporate sector statistics which could have been a very reliable source of data for the BOP. Thus, the BSP decided on the use of surveys.

3. Challenges in the Conduct of the Cross Border Transactions Surveys

The initial intent was to encourage the participation of all companies with cross border transactions in the Cross Border Transactions Surveys. Direct reporting by all these companies would have been ideal because there would be no sampling variability attributed to the statistics produced. Thus, meetings and consultations were held with the target respondents and with industry associations to gather preliminary feedback on the proposed questionnaire and to encourage their full participation in the surveys.

The BSP eventually settled on doing a sample survey. One reason for this is conducting a survey of the entire population of respondents is not manageable given that the group handling this has only been recently formed and the number of staff involved is not adequate. With a small sample size, retrieval and processing of survey results would be easier and faster. This was particularly true in the case of CBTS2 as expanding the sample size to a broader coverage (for example, the top 500 corporations in the Philippines) would be too costly to administer in terms of manpower requirements. Moreover, the cost of having a bigger sample size may not be offset by the benefits that will be realized.

However, the more pressing problem encountered by the BSP is getting the cooperation of private non-financial corporations to participate in the surveys in view of the absence of a legal authority to collect information from these entities. The BSP has an explicit

authority to obtain data only from banks and government offices. By virtue of its regulatory and supervisory authority over banks, it can require the submission by the financial institutions of information that are needed to enable it to carry out its primary responsibilities of promoting price stability, maintaining a stable financial system, and ensuring an effective and efficient payments and settlements system. In addition, Republic Act No. 7653 or the New Central Bank Act authorizes the BSP to request from government offices and instrumentalities, or government-owned or –controlled corporations, any data which it may require for the proper discharge of its functions and responsibilities.

Because of this lack of authority, the response rates to the surveys have been low. This is expected since the information required in these surveys are the financial transactions of companies that are sensitive in nature, unlike the qualitative type that are requested by the BSP from firms for its business expectations survey which asks about businesses' perception on the economic condition of the country and on their own operations. In the case of CBTS1, about 90 percent of companies in the electronics industry responded to the survey when it was introduced. Over the years though, the number of firms submitting responses to the questionnaire declined. CBTS3 is less challenging given that the target population is relatively small and the concerned companies are already used to submitting reportorial requirements to the BSP. Meanwhile, CBTS2 poses the biggest problem as only 6 companies out of the 100 identified have been participating since the survey started. About 70 percent of the target respondents responded during the roll-out of the survey and most of them indicated that they do not maintain bank accounts abroad (This is difficult to verify, especially if the companies are not listed in the stock exchange). A screening survey was conducted in 2012 in an effort to improve further the administration of the Cross Border Transactions Surveys, but the results showed that only 10 additional respondents indicated that they have bank accounts abroad out of the 300 companies that were sent questionnaires.

4. Future Direction and Conclusion

Despite suffering from a low response rate, the Cross Border Transactions Surveys offer valuable inputs to BOP compilation, particularly transactions that are settled through bank accounts abroad of resident non-financial corporations which are not captured in the foreign exchange monitoring reports of banks. CBTS3 may only have a handful of respondents but it is a very important source of data since the companies currently participating in this survey belong to the top 100 corporations in the Philippines based on net worth.

Measures have already been drawn to improve the administration of surveys. A screening survey was conducted in 2012 to review and expand the list of target respondents. Consultations with major industry associations are ongoing to understand better the nature of operations of the target respondents with the view of redesigning the survey questionnaires either totally or partially, also taking into consideration respondents' burden. At the same time, the questionnaires will be revised to incorporate the requirements of BOP compilation under the updated Balance of Payments and International Investment Position Manual, 6th Edition or BPM6. More importantly, additional staff have been deployed to beef up the group overseeing the conduct of the surveys. The staff are given the responsibility to devote more time for follow-ups with the respondents to ensure a substantial increase in the survey response rate.

Apart from the enhancements being introduced to the surveys, the BSP is relentless in pursuing the amendments to its charter that will grant it the authority to collect information from non-financial corporations, among other things. Once these amendments to the New Central Bank Act are passed and become a law, the Cross

Border Transactions Surveys will be a powerful source of data for the BOP as the BSP will be able to cover the transactions of corporations that are missing in the bank reports and other administrative-based records that are currently utilized. The proposed bill is pending with the Congress of the Philippines.

These improvements in the surveys are being done simultaneous with the revisions to the banks' foreign exchange monitoring system. As new trends evolve brought about by rapid changes in the global financial system and trading arrangements, the Cross Border Transactions Surveys will remain a major source of data for BOP compilation in tandem with the bank reporting system.

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