



# BANK OF THAILAND NEWS

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## **Inclusion of the Reinvested Earnings (R.E.) Data in the Compilation of Balance of Payments Statistics**

### **Objectives:**

Despite the fact that the Bank of Thailand has been regularly publishing the Balance of Payment statistics, the Reinvested Earnings<sup>1</sup> (R.E.) data, which had not formerly been surveyed, is not included. In order to improve the coverage of the Balance of Payments statistics, the Bank of Thailand has since 2001 conducted the survey on International Investment Position (IIP) which provides detailed information on the R.E. item.

At present, with our improved and comprehensive survey methodology in a compilation of R.E. data, the Bank of Thailand shall accordingly adjust Balance of Payments data series to reflect R.E. in line with the international standard as stated in the IMF's Balance of Payments Manual: 5<sup>th</sup> Edition (BPM5).

### **Explanation for the Inclusion of the R.E. data:**

According to the IMF's Balance of Payments Manual: 5<sup>th</sup> Edition (BPM5), inclusion of non-residents' reinvested earnings shall result in an increase in the "Foreign Direct Investment" (FDI-inflow). In accounting practice, reinvested earnings are recognized as though the profits were actually repatriated to foreign investors before they were subsequently reinvested in the domestic economy. Therefore, reinvested earnings also need to be recorded as outflow under "Investment Income Payment" item, and as a result, worsening the Current Account by the exact amount which "Foreign Direct Investment Inflow" increased.

This treatment shall also be applied for Thai investors investing abroad, but in the reversed manner. Thai investors investing abroad shall be treated as if they send back their profits to Thailand before reinvesting these profits abroad. Hence, Thai investors' reinvested earnings will be recorded as inflow under "Investment Income Receipt" item, improving the Current Account by the exact amount which "Thai Direct Investment Outflow" increased.

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<sup>1</sup> Defined as operating profits, pertaining to proportional shareholding by non-resident investors and Thai investors investing abroad, that are not appropriated as dividends but recorded as additional retained earnings according to the corresponding accounting period.

However, due to the fact that the numbers of non-resident investors in Thailand are far greater than the numbers of Thai investors investing abroad, as a result of the inclusion of R.E. data, Thailand will become a net payer of the reinvested earnings in the investment income account. In other words, the Current Account shall be deteriorated by the exact amount as the increase in the level of net foreign direct investment, leaving the overall Balance of Payment unaffected. Note that the inclusion of the R.E. data in the compilation of Balance of Payments Statistics is currently practiced by around 127 countries.

### **R.E. Data: Source and Methodology**

For Thailand, the R.E. data is obtained from our survey on International Investment Position (IIP) which has been conducted annually since 2002. After closely monitoring the R.E. data for a certain period, the Bank of Thailand has gained confidence that the R.E. data obtained from our comprehensive survey methodology is statistically correct and reliable to be recorded in the Balance of Payments Statistics and disclosed to the general public.

Although inclusion of R.E. data in the Balance of Payment may worsen the Current Account, the Capital and Financial Account shall be improved by the same amount. In sum, this would keep the Balance of Payment unaffected as it is only an accounting adjustment to yield a more completed Balance of Payment Statistics as shown by an example below.

### **Example: Inclusion of the R.E. data in the Balance of Payments Statistics**

Company ABC (100% owned by non-residents) generates net profits of US\$100 millions; 40% of net profits (i.e. US\$40 millions) will be repatriated to investors; and US\$60 millions, will be reinvested in the company.

#### **Accounting Compilation**

(Million US\$)

Before Inclusion of the Reinvested Earnings *		After Inclusion of the Reinvested Earnings *	
Net Services Income and Transfer Account	-40	Net Services Income and Transfer Account	-40 + (-60) *
Capital and Financial Account (FDI)	0	Capital and Financial Account (FDI)	+60 *
Balance of Payment	-40	Balance of Payment	-40

\* In the past the Bank of Thailand has not yet surveyed R.E. data as individual item; thus, the repatriation of profits reported only through the f.t. forms and by financial institutions was recorded. Hereby, an entry for the US\$40 millions of profits repatriated to non-residents would be appeared in the "Investment Income Payment". Until the survey on International Investment Position (IIP) has been conducted, the reinvested earnings of US\$60 millions become recognized. Therefore, the Bank of Thailand allows adding the reinvested earnings of US\$60 millions to both the "Investment Income Payment" in the Net Services Income and Transfer Account and "Foreign Direct Investment" in the Capital and Financial Account.

From the above illustration, the Balance of Payment before and after an inclusion of R.E. is kept unchanged. Inclusion of R.E. item is only an accounting adjustment affecting the Net Services Income and Transfer Account and the Capital and Financial Account, but does not incur the actual inflows or outflows of money to/from the domestic economy.

#### Comparison of the Balance of Payments Before and After Inclusion of R.E. Data

(Million US\$)

	Before Adjusting R.E. (Old)					Adjusted R.E. (New)				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Export (f.o.b)	63,070	66,092	78,105	94,941	109,193	63,070	66,092	78,105	94,941	109,193
(% change)	-7.1	4.8	18.2	21.6	15.0	-7.1	4.8	18.2	21.6	15.0
Import (c.i.f.)	-60,576	-63,353	-74,346	-93,481	-117,722	-60,576	-63,353	-74,346	-93,481	-117,722
(% change)	-3.0	4.6	17.4	25.7	25.9	-3.0	4.6	17.4	25.7	25.9
Trade Balance	2,494	2,739	3,759	1,460	-8,530	2,494	2,739	3,759	1,460	-8,530
Net Services Income & Transfers	3,711	4,269	4,206	5,405	4,864	2,620	1,946	1,025	1,307	677
<i>of which- reinvested earnings</i>						<b>-1,091</b>	<b>-2,323</b>	<b>-3,181</b>	<b>-4,098</b>	<b>-4,187</b>
Current Account Balance	6,205	7,008	7,965	6,865	-3,666	5,114	4,685	4,784	2,767	-7,852
Capital and Financial Account	-4,565	-4,168	-7,907	-389	8,371	-3,474	-1,845	-4,759	3,628	12,558
of which Direct Investment	3,540	841	1,466	1,769	4,219	4,631	3,164	4,614	5,786	8,405
<i>of which- reinvested earnings</i>						<b>1,091</b>	<b>2,323</b>	<b>3,181</b>	<b>4,098</b>	<b>4,187</b>
Net Errors & Omissions	-323	1,394	85	-741	716	-323	1,394	118	-660	716
Balance of Payments	1,317	4,234	143	5,735	5,422	1,317	4,234	143	5,735	5,422
Ratio (%)										
Current Account/ GDP	5.4	5.5	5.6	4.2	-2.1	4.4	3.7	3.3	1.7	-4.4
Direct investment/ GDP	3.1	0.7	1.0	1.1	2.4	4.0	2.5	3.2	3.6	4.8

Note: In 2004 some Direct Investment items were adjusted, and resulted in a minor change in the Net Errors& Omissions figures in 2003-04.

For the year 2006, the monthly R.E. data comes from the previous set of our survey. Once the Bank of Thailand obtains new set of survey, these data shall be subsequently updated. (Please see the methodology in obtaining an R.E. data

<http://www.bot.or.th/bothomepage/databank/EconData/IIP/iip.htm> )

Bank of Thailand

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