



EUROPEAN CENTRAL BANK

BALANCE OF PAYMENTS STATISTICS AND
EXTERNAL RESERVES DIVISION

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THE FORTHCOMING REVIEW OF INTERNATIONAL STATISTICAL STANDARDS: TOWARDS UPDATING BPM 5

Introduction

1. The idea of working towards the release of a sixth edition of the IMF Balance of Payments Manual (BPM6) was tackled for the first time by the IMF BOP Committee (BOPCOM) at its meeting in October 2000. At that time, the IMF proposed to elaborate a compendium of issues to be updated, which, together with a tentative work plan were presented and approved in the 2002 meeting of the BOPCOM.
2. Overall, consistency with other macroeconomic statistics frameworks and manuals, such as the Monetary and Financial Statistics Manual, the Government Finance Statistics Manual and the System of National Accounts Manual (SNA 93) will be one of the central pillars in the process of updating the BPM5. The parallel update of SNA 93 with a similar planned deadline and the close links existing between both systems strengthen the need to ensure that both revisions are closely co-ordinated and consistency is pursued to the extent possible. The update of SNA93 will undoubtedly also affect ESA 95.
3. Given the increasing internationalisation of financial companies and having regard for user needs and cost considerations, close consistency between the monetary and financial statistics and the b.o.p./i.i.p. statistics is necessary. To this end, a very prominent example of how a link could usefully be developed in BPM6 is of course the monetary presentation of the balance of payments, which is now published by the Eurosystem on a monthly basis (see below). Furthermore, many issues touched in this note, such as the classification of financial instruments, the valuation or the residency definition are currently also addressed in the area of monetary and financial statistics. The IMF has recently published a Manual on Monetary and Financial Statistics (MFSM) and is now in the process of developing a Compilation Guide to accompany that manual. It is essential to ensure that correspondence between the guidance in the MFSM and the BPM6 is as close as possible. Close co-operation between both statistical areas and relevant working groups should therefore be ensured. [To this end, the ECB should ensure that the IMF

develops the necessary mechanisms whereby experts in monetary and financial statistics are consulted on proposals for the development of the BPM5 that have a relevance for monetary statistics]

4. This paper brings forward a short summary of the most important issues which are currently in the pipeline concerning this process and proposes a list of additional issues that should be clarified in the new manual.

Compendium of issues for updating BPM5¹

5. Although the BPM5 update is still at a relatively early stage, some general guidelines have already been sketched in the discussions that have taken place in the last meetings of the BOPCOM. For instance, a more prominent role will be given to the international investment position (i.i.p.) in the new structure of the manual as shown in the draft outline proposed to the BOPCOM. It is also intended to dedicate a chapter to the b.o.p./i.i.p. of “regional” unions; a draft outline (prepared by DG-S and not yet discussed in the BOPCOM) is shown in Annex 1.

6. The kick-off list of issues to be updated in BPM5 when preparing the future Manual was prepared by the IMF and has been articulated in three blocks. The first block corresponds to the *Theoretical framework (including changes to existing recommendations)*. This block includes issues such as the integration of different macroeconomic statistics frameworks, links between b.o.p. and trade statistics, incorporation of the new treatment agreed for financial derivatives, review of valuation principles, consideration of new sector and instrument splits, and the statistical treatment of income (covering issues such as dividends, reinvested earnings, income on collective investment schemes, etc.).

7. Besides being closely involved in the debate on all the above-mentioned topics, DG-S has a special interest in clarifying the following two issues:

- (i) A more explicit reference to the approach to be followed in the compilation of accrued interest, namely whether the creditor or the debtor principle should be the basis. At the moment, the BOPCOM has only discussed the issue in its October 2002 meeting and has not addressed the discrepancy between the current b.o.p./i.i.p. standard (the creditor approach) in the BPM5 and the standard in national accounts statistics (the debtor approach). While consistency between both statistics would certainly be indispensable, some relatively innovative factors will be further considered, in particular the impact of new international accounting standards on the compilation of statistics or the empirical evidence gathered in the framework of the Task Force on Portfolio Investment Income; both could influence the decision that will eventually be taken, which should then be co-ordinated with the SNA revision.
- (ii) In connection with two of the above-mentioned issues, namely the integration of different statistical frameworks and the possibility to expand the sector split of external statistics, the ECB proposes to

¹ The complete list of issues is available on the IMF website.

further split the “other sectors” category in line with the seven-sector approach in financial accounts (see Annex 2).

8. The second block deals with *New and emerging issues*. This block currently includes items such as the relationship between external debt and the i.i.p., further splits by currency and residual maturity, the statistical treatment of reverse transactions and a close monitoring of revisions to international accounting standards (IAS). The ECB S/BOP and the WG-BP&ER have actively participated in discussions related to the treatment of financial derivatives and of reverse transactions², and are closely monitoring the impact of revisions to IAS on the compilation of statistics. The work done by the WG-BP&ER on these and other matters will be provided as input in the related discussions. The link between monetary statistics and the b.o.p. in the framework of the “monetary presentation” of the b.o.p. could also be treated under this block.

9. The third block is devoted to *Clarifications of BPM5*. This block includes items such as the identification and statistical treatment of reserve assets, methodological and practical issues connected with FDI and additional clarifications concerning the concept of residence/economic territory. Concerning these items the following applies:

- (i) the WG-BP&ER and the ECB S/BOP have jointly produced ECB guidelines for the compilation of the Eurosystem’s international reserves statistics³, which are mostly consistent with those produced by the IMF, since both institutions worked in close contact in 1999 and 2000 to ensure full co-ordination in this field.
- (ii) as regards foreign direct investment (FDI) issues, the joint ECB/Commission (Eurostat) TF-FDI is currently studying most of the items mentioned in the IMF’s compendium of issues from a slightly more practical viewpoint. The report of the TF-FDI is due in October 2003.
- (iii) concerning the residence concept, in previous discussions in the BOPCOM the ECB S/BOP has put emphasis on the consideration of regional aggregates and on the classification and recording of transactions performed/positions held by European Union institutions (resident of the EU, and allocated into the General government sector) and euro area institutions (the ECB is a euro area resident, pertaining to the Monetary authority sector). This is especially important for the meaningfulness of the b.o.p./i.i.p. of currency unions (see above). Related matters should appropriately be reflected in the new edition of the Manual.

10. In addition to these items in the list prepared by the IMF, the WG-BP&ER identified some further issues that deserve an appropriate treatment in the update of the Balance of Payments Manual. Some of these issues are also relevant to the revision of SNA 93, and thus of ESA 95. The list covers the following items:

² See exchange of correspondence between Carol Carson and Peter Bull and between Neil Patterson and Jean-Marc Israël in 2000 and 2001.

³ Available on the ECB website under <http://www.ecb.int/pub/pdf/statintreserves.pdf>

- (i) an explicit recognition of the specific conditions of an (economic and/or) monetary union both in national and in aggregate (consolidated) statistics (see Annex 1) should be pursued;
- (ii) the treatment of mutual funds should be further elaborated (with a view to clarifying issues such as the discrepancy in the treatment of income on collective investment schemes currently existing between b.o.p. and financial accounts standards);
- (iii) the revised manual should develop a clearer definition of Special Purpose Entities and should further clarify the methodology applicable to them (in particular, whether the “passing-through” methodology proposed for some of these entities should still be recommended);
- (iv) the 10% criteria currently defining FDI relationships should be reviewed in the context of the new international accounting standards;
- (v) the current operating performance concept (for the compilation of reinvested earnings may be reviewed (and consistency ensured with the principles underlying the recording of dividends);
- (vi) it should further develop issues of joint interest between b.o.p./i.i.p. compilers and national accountants, such as intangibles, reinsurance deals and reverse transactions;
- (vii) regarding new instruments, the treatment of new products, such as credit derivatives, or other financial instruments with embedded derivatives (e.g. reverse convertibles or discount certificates) should be specified in the new manual;
- (viii) a review of the terminology for b.o.p./i.i.p. statistics (following the lines of the B.o.p. Book chapter 3) would be welcome;
- (ix) develop the role of Foreign Affiliate Trade (in goods and services) Statistics in analysing the economic globalisation phenomenon;
- (x) highlight the contribution of the b.o.p. (in particular at monthly frequency) to support the monetary analysis through the monetary presentation (see ECB Monthly Bulletin, June 2003, Box 1). Another field where the b.o.p./i.i.p. data could be used to supplement monetary data are statistics on liquid assets abroad. At the same time the need for consistency between monetary statistics and b.o.p. statistics should be underlined.



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Annex 1

Chapter of the next IMF Manual on b.o.p. / i.i.p. economic and currency union issues

Draft outline

It is worth distinguishing between economic zones and currency unions. In the former, the compilation of the aggregate and the impact on national statistics may remain rather light, and users may focus on developments in the current and capital accounts. In the latter, the situation much differs, with a focus of users on all developments, in particular the financial flows and stocks, and related income.

(i) Single economy:

- no border (VAT applicable for all residents);
- free movement of goods, services, and capital;
- free movement of persons;
- if (also) one currency => one monetary policy.

[with or without policy –mix]

(ii) Statistics for a single currency are not the sum of the statistics of its sub-components

- even if data were fully accurate and timely, classifications would differ: non-residents from a country's perspective become residents within a given sector;
- question of the regional institutions (e.g. central bank, other decision-making institutions, investment banks, etc.): residency and sector;
- but data are not accurate enough, anyway – asymmetries;
- relevant breakdowns can only be obtained by consolidation.

(iii) Compilation of economic and currency unions statistics

Some key features:

- harmonised concepts and definitions. In practice, using institutional standards enables countries to meet their requirements and fosters international compatibility;
- clear and consistent data requirements (output for countries, input for the aggregate); and

- quality indicators / tools.

For items which are a) policy-relevant and b) complex and /or of insufficient quality, common features may be needed as regards the data collection / compilation.

Portfolio investment is a clear candidate (some services may be another one).

In addition to consolidated data for the economy (e.g. euro area – see above Section 2), the compiling agency also needs metadata (for the economic zone and the countries belonging to it).

(iv) Impact of currency unions on national statistics

National b.o.p./i.i.p., external debt and international reserves in countries involved in a currency union cannot be interpreted in the same way as in other countries able to influence their own monetary and foreign exchange developments. For example, the assessment of the vulnerability is altered and e.g. the (national) liabilities to other residents of the currency union do not bring the same (in particular foreign exchange) risks as vis-à-vis residents outside the currency union. For monetary policy purposes national b.o.p./i.i.p. statistics should more be seen as a regional input to the aggregate for the whole currency union. Only this aggregate is then to be interpreted from a monetary policy point of view.

Moreover, the compilation of b.o.p./i.i.p. statistics for a monetary union has to accommodate these particularities. E.g. the recording of currency, of inter-bank liabilities, or of reserve assets is subject to the new environment. At the same time, the requirements for compiling the aggregate may be demanding (see above).



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Annex 2

BALANCE OF PAYMENTS STATISTICS
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UPDATING BPM5: POSSIBLE EXPANSION OF THE SECTOR BREAKDOWN

For discussion by the IMF BOP Committee

The publication of the fifth edition of the IMF Balance of Payments Manual (BPM5) in 1993 represented an important achievement in terms of deeper adaptation of the balance of payments (b.o.p./ international investment position (i.i.p.) methodological standards to changes in financial markets; an adjustment of b.o.p./i.i.p. categories to the widespread use of new non-traditional financial instruments; and a closer approximation to b.o.p./i.i.p. users' needs.

Additionally, while preserving a certain degree of continuity, the BPM5 took the opportunity to promote further convergence between the b.o.p. and i.i.p. and other macroeconomic statistics. In particular, the Manual recommended further conceptual harmonisation of b.o.p./i.i.p. standards with money and banking statistics, government finance statistics and national accounts, the latter along the definitions and the categories established by the System of National Accounts (SNA93).

This gradual process towards further harmonisation could now approach a natural extension. Indeed the publication of the new edition of the b.o.p. manual could be seen as an opportunity to promote further convergence between b.o.p. and financial accounts standards and also with the standards in monetary and financial statistics. As the conceptual convergence is achieved in most areas, such a process could now operate more on fostering further harmonisation in terms of breakdowns by components and categories and could be twofold: (i) convergence in the instrument breakdown and (ii) convergence in the sector breakdown. This paper intends to provide input to the assessment of the second dimension, i.e. the sector breakdown required in the next edition of the BOP Manual.

With the intention of seeking different views on the most appropriate sector breakdown of b.o.p./i.i.p. statistics in the future, the European Central Bank (ECB)'s Balance of Payments Statistics and External Reserves Division contacted several ECB departments to gather views on the use of external statistics from various perspectives: for economic analysis by final users (the ECB's Monetary Policy Stance Division and the ECB's External Developments Division) and as an input for the production of other statistics (the ECB's General Economic and Financial Statistics Division, in charge of the compilation of the Monetary Union financial accounts (MUFA)).

These three areas were consulted on the benefits that further breakdowns of the current "Other sectors" could entail from their respective viewpoints. More specifically, this consultation proposed to consider the following separate sectors (which would be consistent with the "seven sector approach" requirements for the compilation of financial accounts according to the European System of National and Regional Accounts - ESA95 and which are already implemented for the euro area monetary statistics):

- | |
|---|
| <ul style="list-style-type: none">a. Insurance corporations and pension fundsb. Other financial intermediaries (including financial auxiliaries)c. Non-financial corporationsd. Households (including non-profit institutions serving households). |
|---|

Appendix 1 to this note describes some of the benefits that this expansion would entail from the point of view of the final users of b.o.p./i.i.p. statistics (economists in the areas of external developments and monetary policy analysis).

Moreover, for the compilation of financial accounts, this extension would pave the way for the use of the b.o.p./i.i.p. as an input for the Rest of the World sector. In the specific case of the euro area financial accounts, at present the compilation of quarterly MUFA already permits the identification of the counterpart sector for assets and liabilities held/incurred by each sector to some extent. Notwithstanding, at the current stage of MUFA development the breakdown of counterparties into the seven main sectors is still required for some instruments. The reasons for the relevance of such a breakdown are twofold: (a) its value for monetary and financial analysis, given that these breakdowns are already available for the euro area monetary statistics and (b) its use as a plausibility tool to check the consistency of the statistics. In this regard, a complete sectoral breakdown analysis is needed for the euro area outflows and inflows to/from the rest of the world and its investment position, in line with the split suggested in the box.

For the direct use of b.o.p./i.i.p. statistics in the compilation of financial accounts, in addition to supplementary sector breakdown, the other dimension previously mentioned, i.e. instrument breakdown, should also be expanded to some extent. In addition to the main focus of this paper, a more general contribution jointly prepared by the ECB Directorate General Statistics elaborates on how the b.o.p. and the i.i.p. could be used as the source for the Rest of the World account in the framework of the MUFA compilation and which supplementary information would be needed for that purpose (i.e. the paper

touches upon both dimensions: sectors and instruments). The approach followed in the paper refers to the consolidated statistics available for the euro area, i.e. Monetary Financial Institutions' balance sheet, securities issues and balance of payments and international investment position statistics as building blocks for the MUFA compilation; the information available from national accounts of Member States is used to complement those statistics. This general paper is also enclosed with a view to consider these needs in the subsequent discussion concerning the whole compendium of issues for the BPM5 update.

Of course, as any additional output requirements addressed to b.o.p. compilers, such further sector and instrument breakdowns would entail additional effort, which should be carefully considered and balanced against the overall merits before taking any final decision.

The IMF BOP Committee is invited to discuss the possible breakdown of the “other sectors” in the next update of the BOP Manual, and to notably:

- **further elaborate on the user needs;**
- **consider the possible limits and costs incurred (via a broad assessment, to the extent possible);**
- **assess the balance between these considerations.**