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Progress in the Coordinated Implementation of *BPM6* in the European Union

Prepared by the
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EUROPEAN COMMISSION
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Coordinated Implementation in the European Union of the IMF Balance of Payments and International Investment Position Manual (6th edition)

For information of the IMF Balance of Payments Committee

Background

The new international standards that apply to external statistics are defined by the Balance of Payments and International Investment Position Manual – 6th Edition (BPM6), the OECD Benchmark Definition of Foreign Direct Investment – 4th Edition (BD4), and the Manual on Statistics in International Trade in Services (MSITS 2010).

In the last three years, the IMF Balance of Payments Committee has been updated on the steps being taken to implement the revised manuals in the European Union (EU). The changeover will take place in 2014, in coordination with the implementation of the System of National Accounts 2008.[1] As a major step forward since the last BOPCOM meeting, the necessary changes to the EU legal acts have been enacted and published (ECB Guideline (ECB/2011/23) of 9 December 2011 and Commission Regulation (EU) No 555/2012 of 22 June 2012).

This note summarises the developments since October 2011, in particular, on the finalisation of the EU legal acts and respective implementation measures (Section 1), on initiatives targeting a more harmonised introduction of the manuals across countries (Section 2), on the more technical aspects of the data exchange and conversion tools (Section 3). Finally, this note summarises (Section 4) the new challenges arising from an increased demand for b.o.p./i.i.p. data in Europe.

1 The new European Legal Acts

In Europe, changes to international statistical standards are translated into new data requirements via the adoption of a new EU legal framework. After an inclusive and comprehensive discussion, new data requirements have been translated into legal texts in the last year. As planned, the procedural steps for the revision of the legal base were completed by the end of 2011 and the respective legal acts published thereafter:

- ECB Guideline (**ECB/2011/23**) of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics[2];
- Commission Regulation **(EU) No 555/2012** of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions[3].

While translating the new manuals into legal acts, Eurostat and ECB also took the opportunity to simplify and harmonise their data requests, so as to avoid double work for the compilers in EU Member States. The new Eurostat and ECB data requests (to be reported from 2014 onwards) will be fully aligned and synchronized, so that both requests can be fulfilled with a single file sent to both organizations.

The first transmission by EU Member States to Eurostat and the ECB of data compiled according to BPM6 will occur on 24 June 2014; it will contain data for the first quarter of 2014 and for all quarters of 2013. Additional back data, necessary for the economic analysis of time series, will be reported by 23 September 2014; mostly converted from BPM5. For back data from 1999 onwards, the detail required will reflect reporting according to BPM5, while for previous periods at least the main items should be estimated. Long time series of b.o.p. and i.i.p. items are also necessary for the EU Commission Scoreboard being part of the Macroeconomic Imbalance Procedure (see paragraph 4.1) and the European Systemic Risk Board's Risk Dashboard (ESRB Risk Dashboard).

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[1] See respective documents in the following links: http://www.imf.org/external/pubs/ft/bop/2009/09-05.pdf and http://www.imf.org/external/pubs/ft/bop/2010/10-05.pdf.

[2] http://www.ecb.europa.eu/ecb/legal/pdf/l_06520120303en00010044.pdf

[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:166:0022:0066:EN:PDF

As regards timeliness, the deadline for reporting quarterly b.o.p. and i.i.p. data will converge over time to T+80, starting with the reporting at T+85 from 2014 until 2016, at T+82 in 2017 and 2018, and at T+80 from 2019 onwards.

The first publication of European aggregates compiled according to BPM6, including back data, is envisaged for November 2014.

To ensure a smooth adoption of the new legal requirements based on BPM6, a tool has been developed by the ECB to take note of the progress in each EU Member State. This tool consists of a standard template, which will be gradually filled in by the members of the Working Group on External Statistics with information on:

A. Organisation and resources;

B. Legal framework for collecting BPM6 data;

C. Changes in data collection and compilation systems following BPM6;

D. Methodological changes from BPM5;

E. Dissemination of BPM6 data

The ESCB Statistics Committee will be periodically informed about the progress of the implementation work.

2 Initiatives on methodological harmonisation

The introduction of the new statistical standards brought about quite some methodological changes and compilation challenges. Since the ECB and Eurostat strive to support harmonisation and the adoption of best practices, some initiatives have been taken to ensure a smooth and correct introduction of the new statistical standards.

2.1 Treatment of capital injections in multilateral development banks (MDBs)

In June 2010 Eurostat's Financial Accounts Working Group[4], supported by the WG on External Statistics, started discussing how to treat the capital injections in Multilateral Development Banks (MDBs). Multilateral Development Banks[5] are institutions that provide

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[4] See Financial Account Working Group documents: C.1.e (June 2010), C.1.b (June 2011), C.1.d.iii (Dec 2011), C.7 (June 2012).

[5] The term Multilateral Development Banks (MDBs) typically refers to the World Bank Group (notably the IBRD – International Bank for Reconstruction and Development and IDA– International Development Agency) and four Regional Development Banks: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank Group (IDB).

financial support and professional advice for economic and social development activities in developing countries.

Most of the MDBs have two funds, often called lending windows or lending facilities. One type of lending window is used to make loans at market-based interest rates. Such *non-concessional loans* are, depending on the MDB, extended to governments and the private sector in middle income and some creditworthy low-income countries. The other type of lending window is used to make loans at (well) below-market interest rates (*concessional loans*) granted to the governments of low-income countries.

Some MDBs offer solely or mainly *concessional loans* and therefore they are largely funded by contributions from the governments of its richer member countries or from the income of other MDBs (for instance IDA receives additional funds from IBRD's and IFC's income), and from borrowers' repayments of earlier credits.

As the MDB extends *concessional loans and grants* to low-income countries, the window's resources for such activities become systematically depleted. The donor countries periodically replenish the MDB's resources.

A survey made among EU Member States in November 2010 revealed that EU Member States were following different practices in the recording of their contributions to MDBs; a successive analysis showed that the guidelines included in SNA and b.o.p. manuals were not sufficiently clear.

After extensive consultations and discussions with the EU Member States, Eurostat drafted guidelines that were included as a new chapter (*IV.6 Capital increases in multilateral development banks)* in the fourth edition of the Manual on Government Deficit and Debt (MGDD), which was made available on the Eurostat website on 20 March 2012[6]. The guidelines prepared by Eurostat are summarised in Figure 1.

The recording of injections should be based on the type of loans provided by the MDBs: investments into facilities typically providing concessional loans (loans at interest rates below market rates), are to be recorded as capital transfers, while investments into facilities providing non-concessional loans (loans provided at market interest rates) should be recorded as acquisition of 'other equity' (and classified under 'other investment').

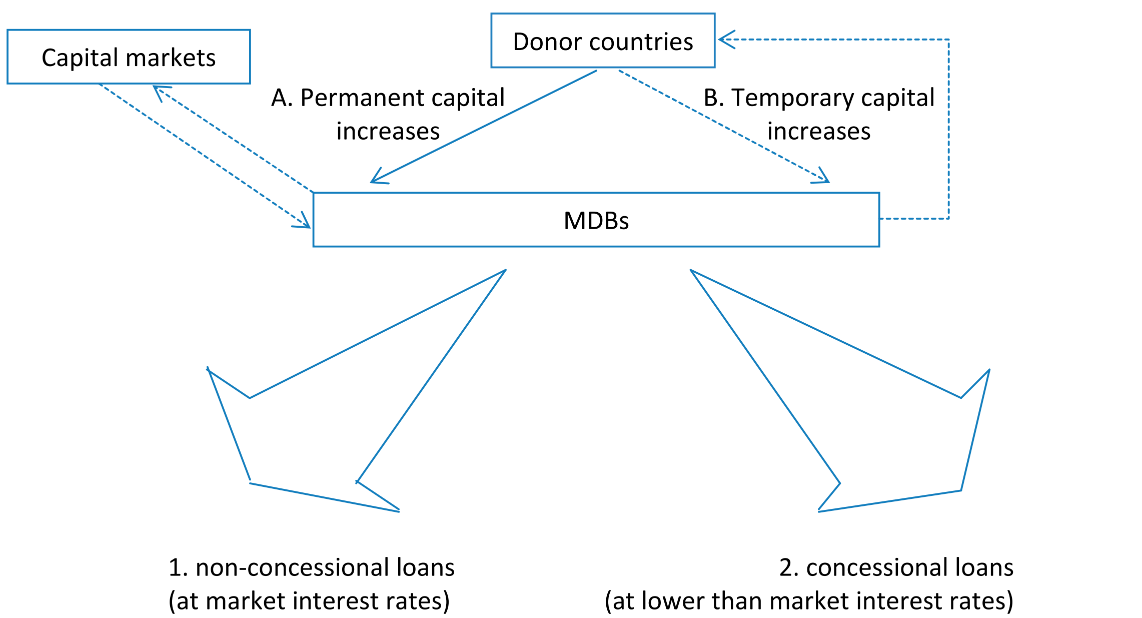
[6] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-12-003/EN/KS-RA-12-003-EN.PDF, see chapter *IV.6, Capital increases in multilateral development banks, page 193-197.*

Temporary capital injections in MDBs are recorded as 'loans' under 'other investment', regardless of which type of loans (concessional or non-concessional) they will actually fund. In the event of a cancellation of the loan (i.e. the capital is not paid back by the MDB), the outstanding credit is reclassified into capital transfers.

A list of MDSs mainly involved in concessional loans was drafted[7]; the flows from the EU Member States towards the facilities included in the list will be recorded by default as capital transfers.

It was agreed that these guidelines would be followed both by bop and by national accounts compilers.

Figure 1: Statistical treatment of capital injections in MDBs according to the Manual of Government Deficit and Debt



A+1: Financial account > other investment > other equity
A+2: Capital account > capital transfers
B+1: Financial account > other investment > loans
B+2: Financial account > other investment > loans

[7] See Financial Account Working Group documents C.7 (June 2012).

2.2 Task Force on FDI valuation

In recent years, different issues related to the valuation of foreign direct investment (FDI) equity positions have been considered in several fora. Following a thorough investigation, in 2001 the ESCB Statistics Committee (STC) assisted by the Working Group on Balance of Payments and External Reserves Statistics (WG-BP&ER) reached some conceptual agreements on the valuation of FDI positions in the euro area international investment position (i.i.p.). On that occasion the STC agreed on the advantage of having all countries using own funds at book value (OFBV) for the valuation of unlisted equity. The adoption of a unique valuation method was expected to reduce bilateral asymmetries in FDI positions within euro area/European Union (EU) and, at the same time, provide a sound and reliable valuation of FDI equity capital.

The Task Force on Foreign Direct Investment (TF-FDI), whose main objective was to identify "best practices" with a view to minimising inconsistent treatments within euro area/European Union (EU), was mandated to investigate the practicality of the conceptual agreement reached by the STC concerning FDI valuation. This harmonised approach was introduced in the ECB Guideline (ECB/2004/15) after careful investigations by the TF-FDI. OFBV is also the valuation criteria for unlisted equity required by the IMF in the context of the CDIS.

At the end of 2011, when the draft of the new ECB Guideline on External Statistics was circulated among STC members, some national central banks proposed a possible amendment of its Annex III concerning the valuation of FDI positions in unlisted equity. The rationale behind this proposal was that the valuation of unlisted FDI equity solely using OFBV may have drawbacks. Furthermore, it has been recognised that changes brought by globalization, as well as the new scenario in which FDI statistics are currently compiled by Member States, may justify an investigation on possible shortcomings of the OFBV standard.

The STC set up a new Task Force to review the methods to value direct investment positions. While the outcome of this task force will be assessed by the STC at its meeting in December 2012, the draft report of the Task Force confirms OFBV as a good benchmark for the valuation of direct investment equity positions in unlisted companies. The task force also recognised that in certain cases a strict application of OFBV may lead to significant imbalances in the national net i.i.p. and can be burdensome for those Member States with a large number of resident SPEs. It was therefore agreed that national compilers shall exchange through the FDI Network[8] information on positions (beyond a certain threshold still to be defined) with the relevant Member State(s), in order to strive for a consistent recording of these investments by counterpart EU countries.

2.3 Workshops on compilation issues

The WG-ES is holding a one-day workshop (on 29 October 2012) to discuss a number of practical issues concerning the implementation of BPM6 in the financial account. The workshop will discuss techniques for the estimation, amongst others, of: i) 'revaluations'; ii) the breakdown of direct investment in equity into "listed", "non-listed" and "other"; iii) superdividends; iv) assets and liabilities for financial derivatives; v) insurance, pension schemes and standardised guarantees; iv) accrued income. This ECB initiative follows a similar workshop organised earlier this year by Eurostat in February 2012[9].

3 Technical issues

3.1 Tool for conversion from BPM5 to BPM6 and *vice versa*

To help Member States to convert data originally compiled according to BPM5 into BPM6, an Excel tool was developed and distributed (on 4 September 2012). The tool builds on the conversion matrix prepared by the IMF in August 2010.

In fact, the tool allows the conversion from BPM5 to BPM6 and vice versa, i.e. the tool maps series reported under the current ECB Guideline 2004/15, as amended by Guideline ECB/2007/3, to those series required under the new Guideline on External Statistics (ECB/2011/23), and vice versa.

In practice it consists of two matrices, each in a separate MS Excel spreadsheet, linked by a macro. The first spreadsheet links BPM6 to BPM5, whereas the second shows the same links but starting from BPM5. The latter is generated through a macro from the first one, in order to ensure full consistency.

3.2 Introduction of BPM6: an occasion to upgrade the standards used for data exchange

The introduction of BPM6 is the perfect occasion for upgrading the data structure definition (DSD) so far used in the transmission of data related to b.o.p./i.i.p.. The development of the

[8] The FDI Network was established jointly by Eurostat and the ECB in 2009 to facilitate a secure exchange of information on large FDI transactions between EU Member States. Initially the exchange of information was related only to transactions, but from spring 2012 onwards the exchange also foresees positions.

[9] http://circa.europa.eu/Members/irc/dsis/bop/library?l=/bop_working_group/working_group_2012/bp-12-19_implementation/_EN_1.0_&a=d

new BoP-DSD started in April 2010 led by a Steering Group composed of ECB, Eurostat and IMF. In October 2011 a Technical Group involving BIS, ECB, Eurostat, IMF and OECD began supporting this task. The new BoP-DSD is the first global statistical DSD developed according to SDMX standards.

This standard will be used by the ECB and Eurostat as from mid-2014 to exchange b.o.p./i.i.p. data within the EU. Moreover, this standard will also be used to disseminate and exchange information among international organisations, namely the IMF. A well-organised data flow among international organisations and between them and countries will be a quantum leap in the official statistics. The Principal Global Indicator (PGI) website may hereby provide the data hub on a global level also for b.o.p./i.i.p. statistics.

4 Increased demand for b.o.p. and i.i.p. data

As part of the initiatives for strengthening economic governance in the European Union (EU)[10], a procedure for identifying emerging or persistent macroeconomic imbalances in EU countries was set up. The regulations implementing the Enhanced Economic Surveillance Package were published on 23 November 2011[11].

The Macroeconomic Imbalance Procedure (MIP) focuses on the identification of emerging or persistent macroeconomic imbalances[12]. The MIP is based on a first assessment made according to a Scoreboard, consisting of a small number (currently ten) of headline macroeconomic indicators. An in depth analysis follows and is integrated in Alert Mechanism Reports prepared annually by the European Commission. The first Alert Mechanism Report was published on 14 February 2012[13], and the first in-depth review on 30 May 2012. The indicators cover internal and external imbalances[14].

B.o.p. and i.i.p. data are extensively used as part of the MIP procedure: three of the scoreboard indicators are based on bop/i.i.p., while detailed analysis of all data is made when drafting the Alert Reports.

The European Systemic Risk Board (ESRB) was established on 16 December 2010 (legislation) and entrusted with the responsibility for the macro-prudential oversight of the

[10] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf
[11] http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2011:306:SOM:EN:HTML
[12] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm
[13] http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/12/104
[14] The indicators of External imbalances are the following: *1) current account balance* as a percentage of GDP; *2) net international investment position* (NIIP) as a percentage of GDP; *3) export market shares* measured in values; *4) nominal unit labour cost* (ULC); 5) *real effective exchange rates*. The indicators of Internal imbalances are the following: *6) private*

financial system within the EU in order to contribute to the prevention or mitigation of systemic risks to financial stability in the EWU and its Member States that arise from developments within the financial system and taking into account macroeconomic developments, so as to avoid periods of widespread financial distress. This would contribute to the smooth functioning of the internal market and thereby ensure a sustainable contribution of the financial sector to economic growth.

Within its mandate, the ESRB developed a Risk Dashboard, which also makes extensive use of b.o.p./i.i.p. statistics. The ESRB Risk Dashboard provides an early warning mechanism to identify potential systemic risk factors. A public version of the ESRB Risk Dashboard, the so-called 'narrative' and the relevant attachments for explanation to the public, were published for the first time on 20 September 2012.[15]

The increased attention of users on b.o.p. and i.i.p. data brought about requests for data not yet available to the general public. Users are now often asking for further detail of the b.o.p. financial account and i.i.p., particularly additional geographical detail, but also information on debt at market and at nominal value. Users also pay additional attention to eventual differences between the data released by Eurostat/ECB and those released by the IMF or published on national websites. These differences were monitored and addressed in 2011/ 2012, but are actually likely to increase in the next two years, since the IMF will soon start publishing data converted into BPM6 while in Europe BPM6 data will be disseminated only in 2014.

To respond to the increased users' requests, Eurostat has greatly expanded the dissemination of national b.o.p. and i.i.p. data in 2012: quarterly data related to all the EU27 Member States are now available from Eurostat's website, including long time series of main aggregates, in some cases starting in the sixties. These national data include also geographical detail, whenever this is available for publication. A page specifically dedicated to the data used in the MIP procedure was also created in Eurostat's website.[16]

The ECB is investigating the possibility of ensuring a broader dissemination of national data via its Statistical Data Warehouse (SDW). This will not only satisfy additional internal demand, but also existing external requests, namely from the European Commission, the ESRB, the European Supervisory Authorities (ESAs) and the European Financial Stability

sector debt as a percentage of GDP; 7) *private sector credit flow* as a percentage of GDP; 8) year-on-year changes in deflated *house prices*; 9) *public sector debt* as a percentage of GDP; 10) *unemployment rate*.

[15] http://www.esrb.europa.eu/pub/pdf/dashboard/120920_ESRB_risk_dashboard.pdf?6dcad02f0942d162de32fee22e919642.

[16] http://epp.eurostat.ec.europa.eu/portal/page/portal/excessive_imbalance_procedure/imbalance_scoreboard

Facility (EFSF). To efficiently cope with the latter request a dedicated SDW was created and is regularly updated.