

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 12 (July 23, 2004)

(1) Topic: **Definition of Domestic and Foreign Currency**

(2) Issues – see CUTEG Issues Paper #12

(3) Outcome of the discussion:

1. In defining foreign and domestic currency, the group considered that the term “currency” should be understood in the broad sense, that is not only banknotes and coins, but all means of payment issued by financial institutions in an economic territory. The treatment of banknotes in a currency union is covered in Issues 13/14.
2. There was consensus that the currency issued in a currency union should always be considered as a domestic currency from the point of view of each member country, even though this currency can be issued by a non resident institution of this country (either another CUNCB or the CUCB). Therefore, the group confirmed the definition used by the *External Debt Guide*, which departs from the strict definition provided by the *1993 SNA* in the context of banknotes and coin.
3. In consequence, it was accepted that in a currency union, a domestic currency can be a claim on a non-resident. This is the solution adopted by the currency unions of African countries (BCEAO, BEAC, ECCB), where the banknotes can be identified by country of origin. When banknotes issued by another country of the currency union are withdrawn from circulation by the national agency but have not yet been repatriated to the country of origin, they are considered as external assets of the country. In the Eurosystem, where the banknotes cannot be identified by issuer, no distinction can be made between those which are domestic claims and those which are foreign claims.

(4) Rejected Alternatives:

For currency issued in a currency union, the group decided not to follow a strict application of the *1993 SNA* guidance provided in the context of banknotes and coin: that is determining domestic currency or a foreign currency on the basis of the residence of the issuer.