
Chapter 13. Uses of Balance of Payments and International Investment Position Data

13.1 This section will introduce the BOP and IIP statistics as important sources for economic policy and analysis. The structure of the chapter will be:

- (a) general issues;
- (b) the accounting framework (along the lines of Appendix 5 in *BPM5*);
- (c) discussion of an analytical framework that focuses on international liquidity; and
- (d) other possible presentations of data.

A. General Issues

13.2 The manual will discuss analytical and policy areas where BOP and IIP statistics have the most relevance and use. It will explain data uses for which BOP and IIP statistics are specifically designed and those areas where users might make use of these data (such as when no better alternative data are available).

13.3 The general issues to be covered include the following:

- (a) The use of the IIP and BOP financial account to analyze vulnerability to external shocks in a world of increasingly mobile financial flows. The role of timely and comprehensive balance of payments statistics: market expectations and uncertainties in fundamentals.
- (b) The current account balance as an indicator of excess or under-spending. Temporary and cyclical deficit /surpluses on the current account, and their impact on inflation and country's terms of trade.
- (c) The use of BOP data for an understanding the movements in the exchange rate through analysis of the supply and demand of foreign currencies driven by the trends in the BOP components.
- (d) The use of BOP statistics in explaining changes in the money supply, an important indicator for the determination of monetary policy. The possibility that BOP/IIP could be used as a supplementary data source for monetary statistics under certain circumstances will be described (in particular, they can be used to adjust monetary aggregates for holdings by nonresidents of monetary instruments).

- (e) The use of BOP/IIP statistics in the context of analyzing globalization and its effect. The manual could usefully describe the contribution of BOP/IIP statistics and highlight the conceptual implications for national BOP, for example toll processing, transfer pricing, and provision of group-wide IT services. Reference could be made to the *Manual on Globalization Indicators*.
- (f) The role of BOP data in the money market operations of central banks. Changes in the net foreign assets of the central bank as important explanatory variables of changes in the liquidity requirement in the money market.
- (g) Statistics on international trade in services in understanding structural changes in the economy and the penetration of foreign markets. Decomposition analysis of price and volume effects of nominal and real exchange rate changes on the balance on goods and services.
- (h) Statistics on inward and outward foreign direct investment in assessing the role of foreign financing, including ownership and control, in the corporate sector (both financial and nonfinancial), and the income generating capacity of investments abroad.
- (i) Trends in the financial account in response to financial market conditions and economic developments for understanding the link between a change in interest rate conditions and the amount, direction, and structure of external financial flows.
- (j) Statistics on international banking flows and stocks may be useful to understand issues in the globalization of international banking and to help focus on the soundness of the domestic banking system.
- (k) The use of IIP data as an alternative way of assessing an economy's relations with the rest of the world.

B. Accounting Framework

13.4 Most of the material in Appendix 5 of *BPM5* will be included to explain what are the accounting identities in the balance of payments and how they relate to other macroeconomic statistical variables.

C. Analytic Presentation Focusing on International Liquidity

13.5 This section will present “the analytic presentation” of the *Balance of Payments Yearbook* and *International Financial Statistics* as a basis for analysis of international liquidity issues. The new manual will not refer to it as “the” analytic presentation, in that there are several ways in which data can be presented for analytical purposes.

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D. Other Analytical Presentations

13.6 This section will introduce the notion and analytical meaning of different balances, such as trade balance, current account balance, basic balance, official settlements balance, and the overall balance. The manual will include a discussion of the monetary presentation of balance of payments. A concept of liquidity abroad (extended M3) will be explained.

References:

BPM5, paras. 7, 9, Appendix 5

1993 SNA—no equivalent

GFSM Chapter 4. The Analytic Framework

MFSM—no equivalent

External Debt Guide, Part. III, Use of External Debt Statistics

Abdulrahman Al-Hamidy, *Use of Balance of Payments Statistics: Case of Saudi Arabia* (BOPCOM-02/50)

M. Atingi-Ego, *Policy Applications of Balance of Payments and IIP Statistics* (BOPCOM-03/37)

Allan D. Brunner and Kanda Naknoi, *Trade Costs, Market Integration, and Macroeconomic Volatility*, IMF Working Paper, WP/02/54

Capital Mobility and the Output-Inflation Tradeoff, IMF Working Paper, WP/00/87

Debt- and Reserve- Related Indicators of External Vulnerability, IMF Paper, March 23, 2000

European Central Bank, *Use of Balance of Payments Statistics* (included on BOPCOM website)

IMF, *Manual on Globalization on Indicators*

Samir Jahjah and Peter Montiel, *Exchange Rate Policy and Debt Crises in Emerging Economies*, IMF Working Paper, WP/03/60

Frederic Lambert and Laurent Paul, *The International Investment Position: Measurement Aspects and Usefulness for Monetary Policy and Financial Stability Issues* (BOPCOM-02/74)

Philip R. Lane and Gian Maria Milesi-Ferretti, *Long-Term Capital Movements*, IMF Working Paper, WP/01/107

Lehmann, Alexander, *Foreign Direct Investment in Emerging Markets: Income, repatriations and Financial Vulnerabilities*, IMF Working Paper, WP/02/47

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S. G. Shcherbakov, *Foreign Reserve Adequacy: Case of Russia* (BOPCOM-02/53)

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The Current Account Deficit in an International and Historical Prospective, Central Bank of Iceland, Quarterly Bulletin, 2001/1

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Trade Policy in Financial Services, IMF Working Paper, WP/00/31

U.K.'s Office for National Statistics, *Use of International Investment Position Statistics in UK* (BOPCOM-02/52)