

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS**  
**CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)**

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**ISSUES PAPER (CUTEG) # 12**

**DEFINITION OF DOMESTIC AND FOREIGN CURRENCY**

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## CURRENCY UNION TECHNICAL EXPERT GROUP

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#### Definition of domestic and foreign currency

1. In a currency union, one currency is issued which is legal tender in the union's member countries. From the point of view of the currency union area, this currency is a domestic currency, and all other currencies are foreign currencies. However, from the point of view of individual member countries compiling their own balance of payments, this distinction may be less clear as the currency can be issued jointly or separately by the national central banks (NCBs) of member countries (decentralized model) or be issued by the currency union central bank (CUCB) and allocated to member countries (centralized model).

#### Current international standards for the statistical treatment of the issue

2. The *BPM5* does not provide any definition of a domestic or foreign currency. However, *1993 SNA* (paragraph 11.70) makes clear that a domestic currency is the one which is issued by a resident entity (and vice versa for a foreign currency).

3. The *Monetary and Financial Statistics Manual (MFSM 2000)* does not provide any additional specification about the definition of a domestic currency. It only incidentally addresses the case of a currency union by stressing the difficulty of calculating the amount of currency in use in a country member of a currency union (paragraph 292).

4. The one definition of a domestic currency in relation with a currency union is provided in the *External Debt Guide 2003* (paragraph 6.12) in which it is stated that a domestic currency "is that which is legal tender in the economy and issued by the monetary authority for that economy or for the common currency area to which the economy belongs".

#### Concerns/shortcomings from the current treatment.

5. One strict interpretation of *1993 SNA* is that, in a currency union, for each member country, banknotes issued by (allocated to) other member countries and the CUCB are to be considered as foreign currencies although they are legal tender in all countries of the currency union. However, this interpretation contradicts with the definition of domestic/foreign currency in the *External Debt Statistics Guide*, although there is a presumption that the monetary authority covers all NCBs plus the CUCB in the union. This needs to be clarified.

6. Also, where the currency is issued jointly by the community of central banks comprising the currency union (see example of the Eurosystem) and the currency cannot be distinguished by country of issuance, it may not be possible to follow the strict *1993 SNA* interpretation.

### **Possible treatments**

7. That part of the currency not issued by a resident entity could be considered as a foreign currency (following *1993 SNA* and *MFSM 2000* recommendations). This implies that when the CUCB issues the currency, it is foreign currency in member countries. Alternatively, it could still be regarded as a domestic currency (following the *External Debt Statistics Guide*).
8. Another approach is to make a distinction based on whether the country of issuance (or allocation) within a currency union can be identified or not (physical distinction in the banknotes by country of origin). In the former case the domestic currency is only those banknotes which are issued (or put into circulation) by the relevant country. This solution would apply for the decentralized and the centralized models. It should be noted that this is the current treatment in the BCEAO and BEAC areas, where the banknotes can be physically distinguished by country of allocation.
9. If no distinction is possible by country of issuance, the currency issued by a currency union can always be considered as a domestic or foreign currency from the point of view of an individual country.
10. In deciding whether a country in a currency union can regard as a foreign currency the common currency issued elsewhere in the union, the wider implications would need to be taken into account, such as for measuring foreign currency external debt and reserves.

### **Points for discussion**

1. *Even if the monetary authority in a currency union is a non-resident institution vis-à-vis individual member countries, should we nevertheless consider that the common currency of the union is a domestic currency for each individual country member of the currency union ? That is use the External Debt Guide definition.*
2. *On the other hand, should we determine domestic and foreign currency based on whether it is issued by a non resident or resident entity ? That is follow the strict interpretation of the 1993 SNA.*
3. *Is being able to distinguish where the currency is issued a relevant factor ? So, if the common currency cannot be distinguished by country of origin, should we consider that the currency held by the residents of a member country as always a domestic (or foreign) currency ?*
4. *Should the External Debt Guide definition be clarified so to specify what is meant by monetary authorities ?*

**References**

*1993 SNA*, paragraph 11.70

*Monetary and Financial Statistics Manual 2000*, paragraph 292

*External Debt Statistics Guide*, paragraph 6.12