

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

ISSUES PAPER (CUTEG) # 16

**DISTINCTION BETWEEN MULTILATERAL SETTLEMENTS
AND ERRORS AND OMISSIONS**

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Balance of Payments Technical Expert Group

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Distinction between Multilateral Settlements and Errors and Omissions

1. This paper discusses the issue of Multilateral Settlements and the necessity of the distinction between the Multilateral Settlements and Errors and Omissions.

Multilateral settlements arise when one economy undertakes transactions with a second economy and the payments for that transactions involve a claim on yet another economy. *BPM5* recommends deriving multilateral settlements as a residual in combination with the item for errors and omissions.

The updated *BPM5* could include a definition of multilateral settlements and provide the methodological guidance for the structure and algorithm for the calculation of multilateral settlements as a bilateral or regional *BOP* item for any country transacting with another one and, in particularly, for country – member of economic or currency union.

I. Current international standards for the statistical treatment of issue

2. References to multilateral settlements can be found in the *BPM5* and Balance of Payments Compilation Guide 1995 (*BPCG*).

3. At the present, the *BPM5* (chapter XXIV, paragraph 491) makes clear the concept of multilateral settlements but does not provide a definition. In accordance with the *BPM5* “...Regional allocation may not necessarily result in a balanced statement for a region. Thus, an item is provided for multilateral settlements to restore an accounting balance by serving as an offset to the inconsistencies in the regional statement. This item may be seen to represent, in concept, the settlement of an imbalance in the compiling economy’s transactions with one region by a transfer to or from that region of claims on, or liabilities to, some other region or regions.”

4. Following the *BPCG* (chapter XVII, paragraphs 814-815) “multilateral settlements arise when an entity in one economy undertakes a transaction with a resident of a second economy and the payment for that transaction involves a claim on a resident of yet another economy. This practice requires compilers to record offsetting entries in regional BOP accounts in order to balance them for particular countries or regions. The entries are called multilateral settlements.”

5. The *BPM5* (para 492) and *BPCG* (paragraphs 814-815) recommend to calculate multilateral settlements as a residual in combination with the item for errors and omissions which is also a residual or balancing item.

6. The *BPM5* (paragraphs 146-147) provides the definition of the errors and omissions. According to this “In practice, when all actual entries are totaled, the resulting balance will almost inevitably show a net credit or a net debit. That balance is the result of errors and omissions in compilation of statements...the standard practice are to show separately an item for net errors and omissions... that item is intended as an offset to the overstatement or understatement of the recorded components.”

II. Concern/shortcoming of the current treatment

7. The concept of Errors and omissions and the concept of Multilateral settlements are different economic categories. Errors and omissions, or statistical discrepancy, provide an indication of the overall accuracy of the statement. This item is the result of errors and omissions in the compilation of statements. The indicator “Multilateral Settlements” makes it clear how much is a degree of participation of the rest of world in external economic relations between two countries (or groups of countries). In words, this item permits clear recognition of the real creditor nonresident who is the owner of the claims on the economy and the real debtor-nonresident who has external liabilities to the economy. At the present, *BPM5* does not indicate the necessity of separation of multilateral settlements as a separate *BOP* item.

8. The importance of the national *BOP* data for countries-members of any economic union or currency union remains high even within an economic or currency union. Countries-members are still interested in determining the main directions of their external economic activities. They also want to know the most important nonresident-creditors and nonresident-debtors located inside an economic or currency union and outside of such kind of unions. Exactly the item Multilateral settlements will provide better information about the identities of nonresident creditors holding the liabilities in the compiling economy. Moreover, these data will assist in realizing the creditor/debtor principle for the allocation of financial flows and stocks in currency union statements (in accordance with the outcome *CUTEG* paper # 11). At the present, *BPM5* does not provide a practicable way of realizing the creditor/debtor principle for regional statements.

9. Since the currency union central bank (*CUCB*) will be treated as a separate institutional unit and as nonresident for each currency union member country (outcome *CUTEG* paper # 3, # 5) it will be possible in some cases to get financing for transactions between member countries by *CUCB*. In accordance with the present *BPM5*, such operations with *CUCB* will be treated as a residual item together with the errors and omissions in the national *BOP* data. Taking into account the importance of such kind of transactions for member countries, it would be desirable to treat such operations in the national *BOP* data separately. The economical substance of the multilateral settlements allows achievement of this.

III. Points for discussion

(1) Would the members of the CUTEG agree on the need for a clear definition of multilateral settlements included in the updated version of BPM5?

(2) Is there a need to determine the methodological guidance for the structure of multilateral settlements in the updated BPM5?

(3) Should the updated BPM5 clarify that multilateral settlements should be calculated as a separate, one of the most important, item of the bilateral or regional BOP not as a residual? Should multilateral settlements be calculated separately from errors and omissions since these concepts are two different economic categories?

(4) Is this a necessity to order the algorithm for the calculation of multilateral settlements in the updated BPM5?

References

BPM5 (Chapter XXIV, paragraphs 146-148)
Balance of Payments Compilation Guide 1995 (Chapter XVII)