

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

ISSUES PAPER (CUTEG) # 2

**DISTINCTION BETWEEN CURRENCY UNION AND
OTHER ECONOMIC UNIONS**

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I. Introduction

The work of CUTEG to date has primarily focussed on the specific challenges posed by currency unions to the current balance of payments and international investment position (BOP/IIP) conceptual framework (*BPM5*). From this standpoint, it is recognized that certain *BPM5* concepts and definition cannot be translated into a CU BOP/IIP context without further guidance. The concepts and definitions so affected include, among others, (i) definition of a currency union (ii) the concept of residence (the CU territory being the sum of the CU members **and** the regional organizations that manages the CU itself); (iii) the definition of regional organizations; (iv) the concept of a monetary authority; (v) the definition of the CU reserve assets; (vi) the domestic/foreign status of the common currency; and (vii) the allocation of intra-CU claims among the CU's central banks, including arising from banknotes.

Against this background, this issue note deals with the specific issues which should be dealt with in compiling the BOP/IIP of other forms of economic unions (EUs) that do not involve the sharing of a common currency. This issue note argues that there are no specific BOP/IIP **conceptual** issues specific to the EUs which are not deal with in the CU cases. In particular, the issue note maintains that the only issues specific to EUs are the definition of an EU and the definition of EU residence. These are similar to points (i) and (ii) above within the CU context. However, the issue note recognizes that there are several compilation issues which must be addressed in compiling meaningful EUs BOP/IIP statements.

II. What are economic unions?

EUs are multilateral agreements among sovereign countries/jurisdictions to foster greater economic integration through either coordination or cooperation procedures. Conceptually, the definition of economic unions is derived by allowing one or more of the elements associated with a national economic territory be shared between different countries/jurisdictions. These elements include (1) the free movements of goods and services within the EU and a common tax regime for imports from non-EU countries (free-trade zone¹); (2) the free movement of capital within the EU; (3) the free movement of (individual and legal) persons within the EU. It also includes (4) the setting-up of specific regional institutions in charge of the functioning of the EU under points (1) to (3).

¹ A free-trade zone occurs when tariffs and other impediments to the free movement of goods and services are removed by eliminating borders within the zone and indirect taxes are represented by a Value Added Tax (VAT), which is due by residents of the countries belonging to the zone.

III Other Issues

EU residence comprises the EU members and the EU regional institutions set up to manage the EU. Regional organizations that comprise the same or a sub-set of the same economies/jurisdictions that comprise the EU are residents of the EU but not resident of any EU member countries/jurisdictions. Hence the EU BOP/IIP statements are compiled as an aggregation of the extra-EU transactions/positions of each EU member countries jurisdictions and the EU's regional organizations.

None of the other CU specific issues (iv) to (vii) above are critical to compiling an EU BOP/IIP. EU member countries/jurisdiction (and a CU, if it is part of a broader EU) issue different currencies, which materialises in different and recognizable banknotes. Claims between different EU members (including the EU's central banks) are cross border positions. When compiling an EU's BOP/IIP, only transactions/positions vis-à-vis non-residents of the EU area are included. Reserves are the sum of those held in the component economies and institutions, excluding any intra-EU claims.

IV. Conclusion

In considering what *BPM5* concepts and definitions cannot be translated into an EU BOP/IIP context without further guidance from that provided for CU, the only critical aspect relates to the definition of an EU and of residence of an EU, including the treatment of regional organizations. Nevertheless, there are a number of practical issues related to compiling the EU BOP/IIP, such as achieving complete agreement on concepts and definition, instrument classification, maturity breakdown, as well as preparing EU country's/jurisdiction's national contribution to the EU BOP/IIP. It is anticipated that some of these intra/extra issues will be discussed in the context of a CU, and are also applicable to an EU. Further compilation advice could be provided in the future compilation guide.

V. Points for discussion

(1) *Would CUTEK members agree that the additional conceptual issues related to compiling BOP/IIP statements for a EU refer to defining an EU and defining EU residence?*

(2) *Do CUTEK members agree with the definition of an EU and the definition of EU residence set out in this note?*

(2) *Would the CUTEK members agree that specific EU (and CU's) compilation issues be addressed in the future compilation guide?*

References

Annotated Outline for the Revision of BPM5, IMF, April 2004 (Chapter 4).

1993 SNA (paras. 14.34).

BPM5 (para 90).

External Debt Statistic (Guide for Compilers and Users) (para 6.12)

CUTEG issue paper # 1: "Definition of Currency Union",

<http://www.imf.org/external/np/sta/bop/pdf/cuteg1.pdf>

Monetary and Financial Statistics Manual 2000 (paras. 89 – 91; 292).