

## CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

### DRAFT FOLLOW-UP PAPER (CUTEG) # 11

(1) Topic: **Intra/extra issues at the currency union level**

(2) Issues – see CUTEG Issues Papers #4, 5, 10 and CUTEG Outcome Papers #4, 5, 10

<http://www.imf.org/external/np/sta/bop/cuteg.htm>

#### **Introduction**

1. Following the discussions during the June 2004 meeting of the CUTEG, this note intends to highlight the main elements one has to bear in mind when considering the balance of payments (b.o.p.)/international investment position (i.i.p.) of a currency union (CU) as opposed to the b.o.p. of a single country (some of these elements are also valid for b.o.p./i.i.p. statements relating to other, less integrated than a currency union, forms of country groupings). While, at first glance, these elements could be considered as mere compilation issues, and as such not relevant for a methodological Manual, they are indeed intrinsically linked to the very existence of the CU. After some general considerations on the compilation of b.o.p./i.i.p. statistics for a CU, the note reviews in more details a number of specific issues, with a particular emphasis on the compilation of portfolio investment (and related income) statistics in a CU.

#### **General considerations**

2. First of all, it should be clear that the b.o.p./i.i.p. of the CU cannot result from the simple aggregation of national data: the simple addition of gross national data would unduly inflate the gross flows/stocks of the CU as these would also include transactions/positions between CU members; the addition of only the net national transactions/positions of the CU members would solve this problem but would result in virtually meaningless aggregates, as only net balances could be shown,<sup>1</sup> without any possibility of separating out debits from credits, assets from liabilities.

3. Therefore, the most fundamental of these elements is the importance of the geographical allocation, at the national level, of the transactions/positions that will contribute to the calculation of the external aggregates of the CU. For the purpose of national statistics, the geographical allocation of cross-border transactions/positions is obviously very useful information for the analysis of the statistics, but it is not strictly indispensable, as the essential information is the fact that these are *cross-border*

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<sup>1</sup> It is worth noting, in addition, that, in practice, “intra” transactions would not cancel out entirely due to asymmetries in bilateral figures, which would blur the aggregate data.

transactions/positions. When dealing with a CU b.o.p./i.i.p. statement, a correct geographical allocation becomes indispensable in order to aggregate only those transactions/positions that are *cross-border* from the perspective of the CU, i.e. only transactions/positions with non-residents of the CU (the so-called “extra” transactions/positions) should be reported (as explained further below, the reporting of transactions/positions between members of the CU may also be necessary for some items of the b.o.p./i.i.p.). Thus, the b.o.p./i.i.p. aggregate for the CU will result from the addition of the national contributions plus that of the CUCB and possible other institutions, where relevant.

4. Another important element is that the rest-of-the-world from a national perspective also needs to be split between residents of other countries belonging to the CU and residents of third countries. The “intra” transactions/positions are still relevant for national b.o.p./i.i.p. (though no longer for the b.o.p./i.i.p. of the CU), but become domestic from the point of view of the CU and, thereby, need to be broken down by SNA (or ESA) sectors to contribute to monetary statistics and to the sector (financial and non-financial) accounts of the CU.

5. A direct implication of this is that harmonisation among the CU members has to be complete in several respects: methodology, periodicity, timeliness, and, eventually, compilation procedures. In the European Union, the on-going harmonisation process has been both enhanced and monitored by the publication of the document entitled “European Union balance of payments/international investment position statistical methods” (the so-called “B.o.p. Book”). The B.o.p. Book documents the methodology and practices applied by Member States for the compilation of b.o.p./i.i.p. statistics. It serves a benchmarking purpose whereby the countries implicitly set out plans for improvement by exposing their practices and their deviations from the agreed international standards (see annex for reference).

6. In a currency and/or economic union, the definition of residence, crucial for external accounts statistics, is further altered (in comparison with the definition for national purposes) because some legal persons may acquire the status of residents of the union while being non-resident of the country where they are located (in particular, the union’s institutions, considered as “international organisations” at the level of the Member States).

### **Specific issues**

7. The formation of a currency (and/or economic) union may necessitate to find some agreements, which may include some deviations from international standards. This is in particular the case for trade in goods in the euro area where the pre-

eminence of the ports of Rotterdam and Antwerp has led the b.o.p. compilers to deviate from the agreed standard for the geographical allocation of transactions, for the purpose of the CU b.o.p.

8. The BPM5 recommends that the geographical allocation for exports should be based on the country of final destination and that of imports should be based on the country of origin. While direct transit trade should be excluded from the goods item (para 209 BPM5).

9. Nevertheless, goods which are channelled through the euro area (in particular via the two ports mentioned above) are recorded as extra-euro area transactions only by that euro area Member State in/from which the goods enter/leave the euro area, in order to avoid double-counting or omissions in the euro area b.o.p. statistics. The other Member State(s) involved, including that in which the goods are finally received or from which the goods were originally sent, apply the “country-of-consignment” principle, i.e. record this transaction as intra-euro area trade in goods going to or coming from another euro area Member State. In addition, member countries in their contribution to the CU b.o.p. should also include direct transit trade.

10. As Member States apply the country of origin principle for their national data and the country of consignment principle for their contribution to the euro area aggregate, the result is for instance that the same transaction is considered as being with a non-resident of the euro area in the national statistics of the reporting Member State and as being with a euro area resident for the euro area statistics.

11. Another issue, also related to geographical allocation, is the compilation of portfolio investment liabilities in the framework of a CU. This paragraph is based on the experience of the ECB in this respect. Whereas the compilation of portfolio investment assets is reasonably straightforward for most countries (respondents know the country of issue of the foreign securities that they are buying or selling), the geographical allocation of flows concerning transactions on securities issued in the reporting economy is more problematic as in most cases respondents are only aware of the place where the transaction takes place and not of the country of residence of the end-investor. This may already be a problem at national level, as the reporting may include transactions carried out by residents on securities issued by other residents; the problem becomes paramount for the compilation of the aggregates of the euro area, an area where financial markets are to a large extent integrated. To overcome this difficulty, the statistical requirements of the European Central Bank regarding portfolio investment and related income are different from what they are for the other items of the balance of payments. Instead of reporting their contribution to the euro area aggregate, Member States are required to report their national liabilities (i.e. also including those vis-à-vis other euro area residents). In addition, they also

have to report their transactions on securities issued by other euro area Member States (the so-called “intra assets”). Statistics on net transactions in portfolio investment liabilities of the euro area are compiled by consolidation of net transactions in total national liabilities and net transactions in securities issued and purchased/sold by euro area residents. Analogous reporting requirements and compilation methods for the aggregate data are applied for portfolio investment income. An illustration of these requirements can be seen in Annex II to the Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template (see in annex for reference). Detailed information on the compilation of statistics on portfolio investment and related income in the euro area/European Union can be found in the reports of the dedicated Task Forces, whose references are provided in annex.

12. Regarding direct investment, the compilation of stocks at a regional level requires the consistent application of the Ultimate Beneficial Owner principle across all members of the currency and/or economic union. Chapter 7 of the report of the joint Commission (Eurostat)/ECB Task Force on Foreign Direct Investment provides a detailed analysis of this issue (see annex for reference).

13. Finally, several other issues should be mentioned as presenting specific problems in the framework of a CU: reserve assets, banknotes and clearing arrangements. These problems are specific of a CU because they are brought about by the formation of the CU. They do not exist for individual countries that do not belong to a CU. When the CU is formed, these problems arise both at the national level and at the level of the CU as a whole. However, these are mentioned here for the record only, as they are dealt with in dedicated issues/outcome papers.

European Union balance of payments/international investment position statistical methods (“B.o.p. Book”)

- <http://www.ecb.int/pub/pdf/other/bopbook04en.pdf>

Report of the Task Force on Portfolio Investment Collection Systems

- <http://www.ecb.int/pub/pdf/other/portfolioinvestmenttaskforce200206en.pdf>

Report of the Task Force on Portfolio Investment Income

- <http://www.ecb.int/pub/pdf/other/portfolioinvestmentincome200308en.pdf>

Report of the Task Force on Foreign Direct Investment

- <http://www.ecb.int/pub/pdf/other/foreigndirectinvestment200403en.pdf>

Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template

- [http://www.ecb.int/ecb/legal/pdf/l\\_13120030528en00200052.pdf](http://www.ecb.int/ecb/legal/pdf/l_13120030528en00200052.pdf)