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List of Abbreviations

1993 SNA	*1993 System of National Accounts*
BIS	Bank for International Settlements
BPM	Balance of Payments Manual
BPM5	*Balance of Payments Manual,* fifth edition
CPIS	Coordinated Portfolio Investment Survey
CPISG2	*Coordinated Portfolio Investment Survey Guide*, second edition
CSDB	Computerized Securities Database
ECB	European Central Bank
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
Esteva Report	*Report on the World Current Account Discrepancy*
EU	European Union
Eurostat	Statistical Office of the European Communities
f.o.b.	free on board
GATS	General Agreement on Trade in Services
GDDS	General Data Dissemination System (IMF)
Godeaux Report	*Final Report of the Working Party on the Measurement of International Capital Flows*
G–10	Group of Ten (industrial countries)
IIP	International Investment Position
ISWGNA	Inter-Secretariat Working Group on National Accounts
ITRS	International Transactions Recording System
LCFAR	Liabilities Constituting Foreign Authorities' Reserves
MPIs	Macroprudential Indicators
OECD	Organisation for Economic Cooperation and Development
ROSCs	Reports on the Observance of Standards and Codes
SEFER	Survey of Securities Held as Foreign Exchange Reserves
SDBs	Securities Databases
SDDS	Special Data Dissemination Standard (IMF)
TSA	Tourism Satellite Account
WFS	Working Party on Financial Statistics (OECD)
WTO	World Trade Organization

Annual Report of the IMF Committee on Balance of Payments Statistics

I. Introduction

The IMF Committee on Balance of Payments Statistics was established in 1992 for the following purposes: to oversee the implementation of the recommendations contained in the reports of two IMF working parties that investigated the principal sources of discrepancy in global balance of payments statistics published by the IMF;[1] to advise the IMF on methodological and compilation issues in the context of balance of payments and international investment position statistics; and to foster greater coordination of data collection among countries. The membership of the Committee as of December 31, 2000 and its terms of reference are presented in Appendices 1 and 2, respectively. In 2000, the Committee held its thirteenth meeting in October, in Washington, D.C., at IMF headquarters.

This report is structured as follows: Section II presents the Executive Summary. Section III provides an overview of statistical discrepancies in the global balance of payments statistics published by the IMF's Statistics Department. Section IV discusses the Committee's work program during 2000, and Section V concludes with a discussion of the issues that the Committee plans to address in the coming year.

II. Executive Summary

This summary discusses recent trends in global balance of payments statistics and the Committee's work program in 2000.

Recent Trends in Global Balance of Payments Statistics

Balance of payments statistics reported to the IMF's Statistics Department and published in the 2000 *Balance of Payments Statistics Yearbook* continue to reveal sizeable discrepancies in global summations of current, capital, and financial account transactions. In principle, the world current, capital, and financial accounts should each sum to zero, but this does not happen because of different recording practices among countries with respect to coverage, valuation, classification; different timing of cross-border transactions; and transactions that are missed altogether by one party or the other.

1999 saw marked increases in the global imbalances for both the *current account* and the *financial account*. Although there was a significant improvement in the imbalance for *goods*, imbalances for most of the other components of the *current account* deteriorated. In the case of the *financial account*, the imbalances for the *portfolio investment* and *other investment* components in 1999 have continued to be large and volatile. Much of the Committee's work is undertaken in an effort to address these imbalances—most notably, the Coordinated Portfolio Investment Survey and the joint IMF-OECD survey of implementation of methodological standards for direct investment. Complementary work is also being undertaken in other venues, notably by the Inter-Agency Task Force on Finance Statistics to improve data on debt liabilities, in Europe on preparing bilateral reconciliations of the data on *travel*, *compensation of employees*, and *direct investment* for the member countries of the EU, and by the Bank for International Settlements and the European Central Bank in developing international securities databases. It is hoped that these initiatives will result in a reduction in the global balance of payments discrepancies over time.

Committee Work Program

The Committee considered the recent work of the IMF's Statistics Department on the development of the data quality assessment framework. There have been three main stimuli to this work. The first stimulus centers around the standards set up to provide guidance to countries on the dissemination of data to the public—the Special Data Dissemination Standard (SDDS) established in 1996 and the General Data Dissemination System (GDDS) established in the following year. The SDDS identifies best practices for disseminating economic and financial data in four dimensions, one of which is data quality. It calls for the dissemination of information, such as methodological statements, that

[1]*Final Report on the Working Party on the Statistical Discrepancy in World Current Account Balances* (the so-called *Esteva Report*), IMF, Washington D.C., 1987, and *Final Report of the Working Party on the Measurement of International Capital Flows* (the so-called *Godeaux Report*), IMF, Washington D.C., 1992.

permits users to make their own assessment of data quality. The GDDS focuses explicitly on encouraging countries to improve data quality and helping them to evaluate their needs for data improvement. The second stimulus to the recent work on data quality had its origin in the Mexican financial crisis of 1994–95, which highlighted the need for countries to provide high quality data to the IMF in support of its responsibility for surveillance of members' economic policies. The third stimulus can be traced to the more recent financial crises in Asia, Russia, and South America, which led to requests from the international community for the IMF to prepare assessments of the extent to which countries meet the internationally recognized disclosure standards (Reports on the Observance of Standards and Codes, or ROSCs). More recent ROSCs also assess the quality of the data available to the public, reflecting the experience that the earlier reports dealing only with the disclosure aspects of the standards did not provide sufficient information. In view of the importance of the data quality issue, the Committee devoted one full day of its 2000 meeting to the topic, extending the meeting from the usual three days. The discussion was very productive and led to a very useful exchange of views.

The Committee also reviewed the final report of a task force of national and international experts that was set up to examine options for conducting the 2001 Coordinated Portfolio Investment Survey (the 2001 CPIS). This survey, which will be undertaken at the end of December 2001 under the auspices of the IMF, is a follow-up to the first CPIS, conducted at the end of December 1997 (the 1997 CPIS). Under the survey, participating countries report to the IMF their end-year holdings of portfolio investment assets, broken down by the country of residence of the issuer. The Committee agreed that the 2001 CPIS should be extended to include countries' portfolio holdings of assets of short-term debt securities held as claims on nonresidents (in addition to the long-term debt securities and equities included in the 1997 CPIS). The Committee also endorsed the task force's recommendation to encourage (but not require) participating countries to provide supplementary information on the sector of the holder of these assets, the currency of the holdings (in aggregate, but not broken down by country of residence of issuer), and the geographic breakdown of their liabilities in these instruments. The 1997 CPIS was undertaken as a step toward addressing global asymmetries in portfolio investment. Twenty-nine countries, including most of the important investor countries, participated in the first survey and an additional $750 billion in assets were identified. The results of the survey were published in December 1999.[2] As an asset survey, with information on the issues by counterpart countries, the CPIS can provide useful information from which countries can estimate their liabilities to nonresidents in these instruments. It is seen by the Committee as an important complement to the international banking statistics produced by the BIS. The potentially beneficial impact of this initiative on accurately recording the rapidly growing volume of cross-border activity in portfolio securities is underscored by the difficulties that many countries have encountered in measuring cross-border activity in these instruments—as evidenced by the continuing large discrepancies in the global balance of payments statistics on portfolio investment financial flows and the related income flows. The Committee was advised that as many as 75 countries may participate in the 2001 CPIS, including about 20 small island economies with large international financial centers. The Committee heard an IMF report on statistical issues related to six such centers.

As for other activities in 2000, the Committee agreed that an IMF staff paper attempting to clarify the treatment of reverse transactions[3] (and the related positions) be made available to others in the field in the IMF's Working Paper series. At the same time, the Committee agreed that further work be undertaken to identify the size of the reverse transactions market and the potential contribution that these transactions may make to global asymmetries. The Committee was apprised of work being undertaken in the EU and euro area regarding the impact the introduction of the euro will have on banks' reporting systems (and hence on EU and particularly on euro area member states' balance of payments systems) and the harmonization of reporting by large multinational corporations within EU countries. The Committee continued to monitor the development of an inter-agency manual on statistics of international trade in services, and reviewed a proposal that the treatment of accrued interest on debt securities be standardized across all macroeconomic statistics. It also discussed the means of updating countries' metadata on direct investment methodology. The Committee was also apprised of progress that countries are making in reporting their balance of payments and international investment position data to the IMF on the basis of the classification system of *BPM5*. The Committee received a progress report from the task force (comprising

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[2]*Results of the 1997 Coordinated Portfolio Investment Survey,* IMF, Washington D.C., 1999.

[3]Reverse transactions are repurchase agreements, securities lending, gold swaps and gold loans.

the BIS, the ECB, and the IMF) that was set up following the Committee's 1999 meeting to examine the use of databases on individual securities for use in compiling portfolio investment statistics and other applications (such as for external debt and reserves data). Among the other subjects reviewed by the Committee were the following: a paper on improving measurement in travel estimates in Chile; the approaches being taken in Europe to address the problems in measuring travel in the Economic and Monetary Union (EMU) countries, following the demise of their currencies in 2002; the benefits and disadvantages of monthly balance of payments statistics; a model to estimate the value of illegal drug importation into Russia; and the challenges faced by Saudi Arabia in implementing the *BPM5*. The Committee was brought up-to-date on the work being undertaken on international banking statistics (at the BIS), on progress toward the development of a new inter-agency guide on external debt statistics for use by compilers and users, and on the degree to which the data template on international reserve and foreign currency liquidity has been adopted. The Committee was apprised of the continuing work on macroprudential indicators at the IMF and was advised of developments in relation to the statistical treatment of the acquisition of licenses to use broadcast spectra for the operation of mobile phones. The Committee was brought up-to-date on progress in the development of international standards for tourism satellite accounts. The Committee reviewed IMF staff papers on training proposals for users of balance of payments statistics and on some of the issues for consideration for a new balance of payments manual.

III. Recent Trends in Global Balance of Payments Statistics

In principle, the combined surpluses and combined deficits arising from the current, capital, and financial account transactions of all countries should equal zero, as the credits of one country or international organization are the debits of another. In practice, however, the data do not offset each other, and significant statistical discrepancies occur in the global balance of payments statistics. These discrepancies reflect primarily the incomplete coverage of transactions and the inaccurate and inconsistent recording of cross-border transactions by countries—inconsistencies that result, for example, from differences in classification and valuation practices, or in the time of recording transactions. It should also be noted that many errors and omissions offset or cancel each other and are therefore not reflected in the data on global net balances shown in Tables 1 and 2.

At its 2000 meeting, the Committee was presented with an IMF paper on trends in these discrepancies. The paper is summarized in paragraphs 11 through 32 that follow. Eurostat made a presentation on work being undertaken in the European Union (EU) towards eliminating discrepancies in the bilateral statistics of EU countries. Eliminating such asymmetries is an important step towards reducing global imbalances.

Global Current Account

The global current account data shown in Table 1 indicate that recorded debits exceeded recorded credits by $127 billion in 1999, almost three times higher than the level of the revised net debit balance in 1998. The 1999 imbalance was also markedly higher as a percentage of gross current account transactions than the imbalances since 1993—0.7 percent, compared with an average of 0.3 percent for the years from 1993 through 1998, as indicated in the memorandum items of Table 1.

The imbalances for the global current account mask diverging trends in the imbalances of the main components of the account—*goods*, *services*, *income*, and *current transfers*—as seen in Figure 1. Although there was a significant improvement in the imbalance for *goods*, imbalances for most of the other components of the *current account* deteriorated.

As in all years since 1993, recorded credits exceeded recorded debits in 1999 in the *goods* component. As illustrated in Figure 1, the downward turn in the imbalance since 1997 continued in 1999. However, the 1999 imbalance decreased markedly to $44 billion, almost half the revised 1998 imbalance of $79 billion, and represented the lowest percentage of gross goods transactions since 1993—0.4 percent, compared with an average of 1.0 percent for the years from 1993 through 1998. (See Figure 2.)

As Figure 1 shows, the data on *income* transactions—*compensation of employees* and *investment income*—continued to show an excess of recorded debits over recorded credits in 1999, as in all years since 1993. The marked deterioration in the imbalance that began in 1998 continued, with the imbalance for 1999 increasing by 29 percent from the revised 1998 imbalance of $96 billion to $124 billion. As a percentage of total gross income transactions, the 1999 imbalance was 4.5 percent, the largest since 1993, and significantly higher than the average of 3.3 percent of total gross income transactions seen during the period 1993–1998.

Unusually, the largest part of the increase in the discrepancy for income transactions in 1999 arose from *other direct investment income,* which increased by $34

Table 1. Global Balances on Current Account
(In billions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	*Average Imbalance 1993–98*	*Average Imbalance 1993–99*
Current account balance	–60.6	–32.4	–27.3	–15.3	35.3	–43.7	–127.2	*–24.0*	*–38.7*
Trade balance	67.1	97.5	117.1	100.6	120.3	78.8	44.3	*96.9*	*89.4*
Credit	3,730.5	4,232.6	5,086.6	5,335.6	5,543.5	5,429.4	5,594.3	. . .	. . .
Debit	3,663.4	4,135.1	4,969.5	5,234.9	5,423.2	5,350.6	5,550.0	. . .	. . .
Services balance	–18.9	–4.2	–16.9	–8.2	2.3	–1.3	–15.4	*–7.9*	*–8.9*
Credit	995.6	1,080.4	1,227.3	1,309.9	1,357.9	1,372.0	1,382.5	. . .	. . .
Debit	1,014.5	1,084.6	1,244.3	1,318.1	1,355.6	1,373.3	1,397.9	. . .	. . .
Transportation	–55.5	–55.7	–65.8	–61.7	–63.7	–60.1	–64.8	*–60.4*	*–61.0*
Travel	27.4	25.7	30.4	39.4	36.7	39.9	39.6	*33.3*	*34.2*
Government services	–9.6	–10.9	–13.5	–12.3	–12.4	–7.4	–15.9	*–11.0*	*–11.7*
Other services	18.8	36.6	32.0	26.4	41.6	26.4	25.7	*30.3*	*29.7*
Income balance	–64.9	–70.7	–79.1	–75.7	–62.3	–96.5	–124.5	*–74.9*	*–82.0*
Credit	919.1	922.3	1,110.6	1,175.3	1,234.4	1,319.4	1,325.7	. . .	. . .
Debit	984.0	993.1	1,189.7	1,251.0	1,296.8	1,415.9	1,450.2	. . .	. . .
Compensation of employees	–9.7	–8.5	–8.6	–8.5	1.1	–1.4	–0.2	*–6.0*	*–5.1*
Reinvested earnings	47.4	43.5	59.4	69.7	57.0	43.0	47.2	*53.3*	*52.4*
Other direct investment income	–1.4	10.5	–17.8	–14.5	4.2	0.6	–33.1	*–3.1*	*–7.4*
Portfolio and other investment income	–101.1	–116.2	–112.1	–122.3	–124.6	–138.6	–138.3	*–119.2*	*–121.9*
Current transfers balance	–43.9	–55.0	–48.3	–32.1	–25.0	–24.8	–31.6	*–38.2*	*–37.2*
Credit	292.4	294.5	322.1	367.3	359.7	375.9	377.6	. . .	. . .
Debit	336.3	349.5	370.4	399.4	384.7	400.7	409.2	. . .	. . .
Memorandum items									
Current account balance as percent of gross current account transactions	0.5	0.2	0.2	0.1	0.2	0.3	0.7	*0.3*	*0.3*
Trade balance as percent of gross goods transactions	0.9	1.2	1.2	1.0	1.1	0.7	0.4	*1.0*	*0.9*
Service balance as percent of gross service transactions	0.9	0.2	0.7	0.3	0.1	0.0	0.6	*0.4*	*0.4*
Income balance as percent of gross income transactions	3.4	3.7	3.4	3.1	2.5	3.5	4.5	*3.3*	*3.4*
Current transfers balance as percent of gross current transfer transactions	7.0	8.5	7.0	4.2	3.4	3.2	4.0	*5.6*	*5.3*

Source: IMF, *Balance of Payments Statistics Yearbook*, Volume 51, Part 2, (Washington, 2000)

billion, from a revised positive imbalance (an excess of recorded credits over recorded debits) of less than $1 billion in 1998 to a negative imbalance of $33 billion in 1999. (See Figure 3.)

While the imbalance for *portfolio* and *other investment income* remained almost exactly the same as the revised 1998 negative imbalance of $138 billion, Graph 3 shows that the excess of recorded debits over credits for portfolio and other investment income continued to be the largest element of the total income imbalance, as in all years since 1993. The deteriorating trend in the imbalance seen since 1995 continued, and the imbalance in 1999 represented a cumulative increase of 23 percent over the past five years. This deteriorating trend reflects the corresponding imbalance in the financial account.

Figure 3 also shows that, as in all years since 1993, *reinvested earnings* had an excess of recorded credits over debits in 1999. The 1999 imbalance of $47 billion reversed the steady modest improvement in the discrepancy seen for each year since 1996. *Compensation of employees* continued the near zero imbalance seen in recent years.

Table 2. Global Balances on Capital and Finance Accounts
(In billions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	*Average Imbalance 1993–98*	*Average Imbalance 1993–99*
Capital account balance	19.0	21.7	17.5	1.9	0.1	–13.6	–18.8	*7.8*	*4.0*
Credit	31.8	44.1	39.4	56.1	46.3	44.3	46.0	. . .	. . .
Debit	12.8	22.4	21.9	54.3	46.2	57.8	64.8	. . .	. . .
Financial account balance	99.7	73.4	109.6	137.4	149.0	69.7	121.6	*106.5*	*108.6*
Direct investment	–7.1	–20.1	–10.8	5.0	18.0	–2.9	64.3	*–3.0*	*6.6*
Abroad	–225.2	–262.1	–333.9	–366.4	–440.0	–676.9	–846.9	. . .	. . .
In reporting economy	218.2	242.0	323.1	371.4	458.0	674.1	911.2	. . .	. . .
Portfolio investment	158.3	64.8	175.3	157.6	264.0	–124.1	179.1	*116.0*	*125.0*
Assets	–534.5	–335.3	–407.6	–647.0	–733.3	–1,038.2	–1,357.8	. . .	. . .
Liabilities excluding LCFAR	692.8	400.2	583.0	804.6	997.2	914.1	1536.9	. . .	. . .
Financial Derivatives	–5.6	1.3	–10.5	–11.6	–5.5	–7.7	25.6	*–6.6*	*–2.0*
Assets	–0.5	3.1	41.2	27.4	38.6	78.0	104.7	. . .	. . .
Liabilities	–5.2	–1.8	–51.7	–39.0	–44.1	–85.7	–79.1	. . .	. . .
Other investment	17.0	61.9	–1.4	18.3	–98.3	217.5	–132.0	*35.8*	*11.9*
Assets	–431.5	–266.3	–673.8	–759.2	–1,328.0	–309.5	–471.6	. . .	. . .
Liabilities excluding LCFAR	448.6	328.1	672.5	777.5	1,229.7	527.1	339.6	. . .	. . .
Reserves plus LCFAR[1]	–62.9	–34.5	–43.1	–31.9	–29.3	–13.2	–15.4	*–35.8*	*–32.9*
Reserves	–97.1	–105.1	–184.6	–188.3	–89.0	–43.5	–153.7	. . .	. . .
LCFAR1	34.2	70.6	141.6	156.3	59.8	30.3	138.3	. . .	. . .

Source: IMF, *Balance of Payments Statistics Yearbook*, Volume 51, Part 2, (Washington, 2000).

Note: in the financial account, no sign in the balances indicates an excess of recorded inflows over outflows: a negative sign indicates an excess of recorded outflows.

[1]Liabilities constituting foreign authorities' reserves. The data in liabilities constituting foreign authorities' reserves were derived from information collected by the IMF from a sample of large reserve-holding countries. These data were used to adjust portfolio and other investment liabilities to align the data better with the corresponding asset series.

Services transactions showed an excess of recorded debits over credits of $15 billion in 1999, which represents a significant deterioration in the imbalance compared to the previous two years, but a reversion to the relatively large net debit imbalances seen in the period from 1993 though 1996. (See Figure 1.) The overall imbalance for 1999, which represented 0.6 percent of the total gross services transactions, masked offsetting imbalances in the underlying components.

As indicated in Table 1, the most significant change in 1999 was the $8 billion increase in the net debit imbalance (with recorded debits exceeding recorded credits) for *government services* to $16 billion, the highest imbalance since 1995, and higher than the average for the period 1993–1998 of $11 billion. The net debit imbalance for *transportation services* remained relatively stable, and close to the average net debit balance of $63 billion for the period from 1995 to 1998. This appears to indicate that there has been little improvement in the main contributing factor identified in the *Esteva Report*, namely, that several economies with large maritime interests do not report the foreign earnings of their fleets registered in other countries—the so-called "missing fleet" problem. The net credit imbalance in *travel* continued in 1999, as in all years since 1993, and the imbalance for 1999 of $40 billion was almost exactly the same as in the previous year. As in all years since 1993, *other services* transactions showed a net credit imbalance, and the imbalance of $26 billion for 1999 was lower than the average level for the period 1993–1998 of $30 billion.

Current transfers in 1999 showed an excess of recorded debits over credits, which, as illustrated in Table 1 and Figure 1, has been the case since 1993. Although there was a $7 billion increase in the imbalance to $32 billion in 1999, reversing the decreases seen during the years since 1994, the imbalance in 1999 was lower than the average net debit imbalance for the period 1993–1998 of $38 billion. The imbalance as a percentage of gross current transfer transactions (4.0 percent) was

Figure 1. Current Account Imbalances 1993–1999: Components
(US$ billions)

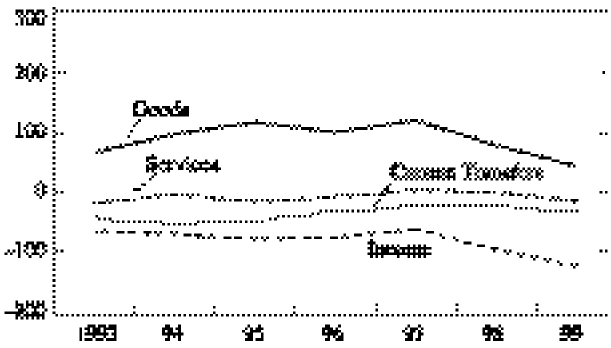


Figure 2. Goods Imbalances 1993–1999: As a Percentage of Gross Goods Transactions

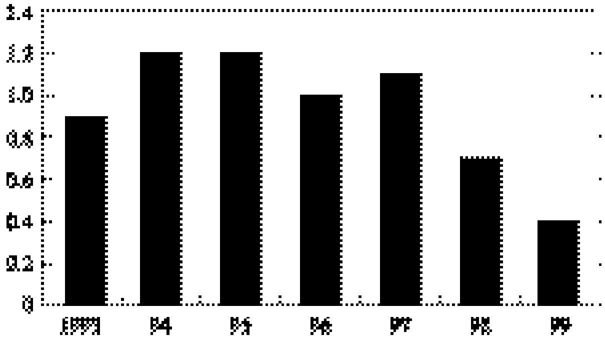
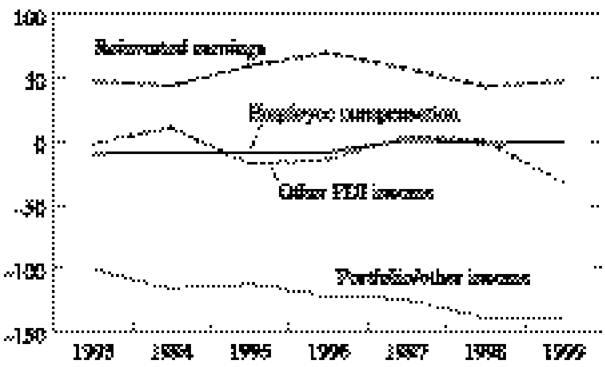


Figure 3. Income Imbalances 1993–1999: Components
(US$ billions)



also lower than the average percentage for the years from 1993 through 1998 of 5.6 percent.

Global Capital and Financial Account Balances

As indicated in Table 2, the *capital account*—comprising *capital transfers* and *acquisitions and disposals of nonproduced, nonfinancial assets*—had an overall negative imbalance (with recorded debits exceeding credits) of $19 billion in 1999. This continued the net debit imbalance of 1998, which in turn was a reversal from the net credit imbalance seen in the years from 1993 through 1997. The change in 1999 resulted almost entirely from an increase in debits (from $58 billion in 1998 to $65 billion in 1999)—credits for 1999 of $46 billion were similar to the total credits in 1998 of $44 billion.

Table 2 indicates that recorded net inflows continued to exceed net outflows in the *financial account* in 1999, as has been the case since 1993. However, the positive imbalance increased by $52 billion (74 percent) from the revised 1998 positive imbalance of $70 billion to $122 billion, reversing a decrease in the imbalance seen in 1998. (See Figure 4.) The 1999 imbalance was also higher than the average imbalance for the years from 1993 through 1998 of $106 billion.

Within the components of the financial account the imbalances remained very volatile and to some extent offset each other. As shown in Figure 5, there was a very significant turnaround of $303 billion in the adjusted imbalance for *portfolio investment* in 1999, which in that year returned to the excess of recorded net inflows over net outflows seen for every year since 1993, except 1998. The reversion to a positive imbalance in 1999 (an adjusted imbalance[4] of $179 billion—adjusted to remove $95 billion of liabilities whose counterpart assets are estimated to have been included in reserve assets) implies that the adjusted recorded excess of net outflows over net inflows of $124 billion[5] in 1998 was an anomaly.

The recorded increase in portfolio net outflows in 1998 may have been related to increased investment in countries apparently unaffected by the international financial crises of 1997 and 1998. While under-reporting of portfolio investment assets is considered to be the more serious problem, the recently released *Analysis of the 1997 Coordinated Portfolio Investment Survey Re-*

[4]In calculating the global aggregates, the IMF adjusts the portfolio investment and other investment liabilities data to take account of those liabilities whose counterpart assets are classified as reserves assets (the "adjusted imbalances"). The unadjusted imbalances do not exclude these liabilities. (See also footnote 8.)

[5]Revised data.

sults and Plans for the 2001 Survey[6] indicates that there may also be problems with under-measurement of the net liabilities flows, as residents of countries may have the ability to incur new external liabilities in the international capital markets that may not be captured by the national compilers.

Debt securities continued to be the predominant element in the unadjusted 1999 portfolio investment imbalance, as has been the case since 1993. However, in 1999 *debt securities* accounted for a lower proportion of the *portfolio investment* imbalance ($186 billion or 68 percent of the unadjusted imbalance of $275 billion) and *equity* transactions accounted for a markedly more significant proportion than in previous years ($88 billion or 32 percent of the unadjusted imbalance).

Table 2 and Figure 5 indicate that *other investment* in 1999 had an adjusted negative imbalance (net outflows exceeding net inflows) of $132 billion, a turnaround of $350 billion from the revised adjusted positive imbalance (net inflows exceeding net outflows) of $218 billion in the previous year.

The predominant factors in the change appear to have been a significant increase in the negative imbalance for *currency and deposits*, offset in part by an increase in the positive imbalance in *loans*. The unadjusted 1999 data for *other financial assets and liabilities,*[7] of which *currency and deposits* was the largest element, show a negative imbalance (net outflows exceeding net inflows) of $322 billion, a $292 billion increase in the negative imbalance of $30 billion seen in 1998. The unadjusted negative imbalance for other financial assets and liabilities in 1999 was partly offset by an unadjusted positive imbalance (net inflows exceeding net outflows) for *loans* of $233 billion.

As indicated in Figure 5 and Table 2, the movement in the imbalance of *portfolio investment* during the past three years was the opposite of the movement in the imbalance of *other investment* during the same period. *Portfolio investment* moved from an adjusted positive imbalance (net inflows exceeding outflows) of $264 billion in 1997 to an adjusted negative imbalance of $124 billion in 1998, returning to an adjusted positive imbalance of $179 billion in 1999. *Other investment*, on the other hand, moved from an adjusted negative imbalance (net outflows exceeding inflows) of $98 billion in 1997 to an adjusted positive imbalance of $218 billion in 1998, and back to an adjusted negative imbalance of $132 billion in 1999.

Figure 4. Financial Account Imbalances 1993–1999
(US$ billions)

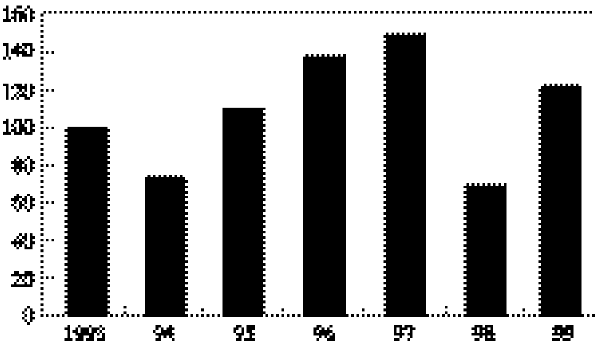


Figure 5. Financial Account Imbalances (Adjusted) 1993–1999: Selected Components
(US$ billions)

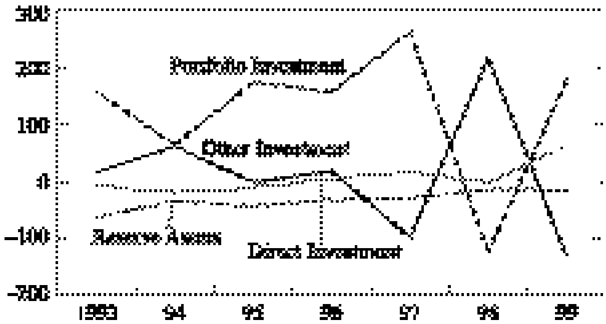


Table 2 and Figure 5 also show a significantly larger imbalance for *direct investment* in 1999 than at any time since 1993—an adjusted positive imbalance of $64 billion, which is a marked deterioration from the near zero imbalance seen in 1998—with investment in the reporting countries of $911 billion exceeding investment abroad of $847 million. Moreover, the overall imbalance disguises larger discrepancies in the underlying components. *Reinvested earnings* (the counterpart of the *reinvested earnings* item in the current account) showed a negative imbalance in 1999 of $47 billion, and a reversal of the modest but steady improvement in the level of imbalance seen in each year since 1996. The negative imbalance in *reinvested earnings* in 1999 was offset by a positive imbalance in *other direct investment* (*equity capital* and *other capital*) of $111 billion, a significant deterioration from the positive imbalance of $40 billion in 1998, and a continuation of the deteriorating trend in

[6]*Analysis of 1997 Coordinated Portfolio Investment Survey Results and Plans for the 2001 Survey,* IMF, Washington D.C., 2000.

[7]Data on other financial assets and liabilities include trade credits and miscellaneous items such as capital subscriptions to international nonmonetary institutions, as well as currency and deposits.

the imbalance seen in every year since 1993, except 1998.

In 1999, countries were asked for the first time to report separate data on *financial derivatives*. Table 2 indicates a positive imbalance of $26 billion in 1999, with assets of $105 billion exceeding liabilities of $79 billion. However, the 1999 figures should be viewed with a great deal of caution, given that few countries have reported separate data for this component.

In compiling the global aggregates, the IMF adjusts the data for portfolio investment and other investment liabilities to take account of those liabilities whose counterpart assets are classified as *reserve assets*.[8] Although the adjustments may be imprecise given that some significant reserve-holding countries do not report this information, the reduced level of the adjusted imbalance first seen in 1998 continued in 1999, with a negative imbalance between reserve assets and liabilities constituting foreign authorities' reserves (LCFAR) of $15 billion.

IV. Work Program Undertaken by the Committee in 2000

The work undertaken by the Committee in 2000 reflected the priorities established in the medium-term work program at the end of 1999. The preparations for conducting the 2001 Coordinated Portfolio Investment Survey and the development of a new guide on the compilation and use of external debt statistics remained top priority items of the Committee in 2000. Top priority was also given to the development of a data quality assessment framework, which became an important issue for the Committee during the year. High priority was given to methodological work on the reporting of the authorities' international reserves and foreign currency liquidity positions; the conceptual framework and classification of statistics on trade in services; the clarification of the concepts and the appropriate statistical reporting of repurchase agreements (reverse transactions); the extent to which countries report balance of payments data to the IMF on the basis of the classification system of *BPM5*; and a review of the appropriate method for the statistical measurement of accrual of interest on debt securities. Other work undertaken during the year included the release of a supplement to *BPM5*[9] to reflect the changed treatment of financial derivatives, and clarification of certain direct investment methodological issues. In addition, the Committee commented on a range of discussion papers. It received a report on the implications of the introduction of the euro on the balance of payments statistics of the EU, including euro area, countries; papers on the benefits and disadvantages of monthly balance of payments statistics; a report from Saudi Arabia on the issues involved in a implementing *BPM5* in that country; the measurement of travel account in Chile; a paper on the development of a model to measure the illegal importation of drugs into Russia; and a paper on training for balance of payments compilers and users. The Committee was also advised on progress toward the development of macroprudential indicators as well as receiving several papers from the ECB on developments on balance of payments statistics and the IIP in the euro area. The Committee also considered the issues that will need to be addressed for updating *BPM5* and the process of updates.

Data Quality Assessment Framework

As indicated earlier, recent financial crises have led policymakers and other users of statistics to give increased attention to the availability of comprehensive, timely, and reliable financial and economic data. Particular importance has been attached to the quality of statistics and the need for a systematic approach and a common language for assessment of data quality.

In view of the IMF's responsibility for economic surveillance of its members' economic policies, and to assist users of the data to evaluate their quality, the IMF's Statistics Department intensified its effort in 2000 to develop a framework for assessing the quality of data. The framework that is emerging comprises a generic assessment framework, as well as specific assessment frameworks for the main aggregates used for macroeconomic analysis and policy. It is also intended that supporting guidance notes will be incorporated.

The Committee was provided with a proposed methodological approach, embodied in the data quality assessment framework. The framework is flexible and is designed to be applicable across the full range of countries, from economies with comprehensive statistical systems to those with less well developed ones. For this reason, there are no specific weights assigned to its dimensions or elements, in recognition that different country situations will call for different statistical tradeoffs. The Com-

[8]The information used to make these adjustments is derived from a confidential survey of the instrument composition of reserve assets in the major reserve-holding countries, which the IMF began to collect in response to a recommendation of the 1992 report on the *Report on the Measurement of International Capital Flows* (the so-called "*Godeaux Report"*). The data compiled from the survey information are used only at the global level.

[9]*Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual,* IMF, Washington D.C., 2000.

mittee supported the proposed approach, found it to be comprehensive, and also recognized that the quality of statistical series is intrinsically bound together with that of the institution or system producing the statistics.

The Committee discussed at some length the possible applications of the framework for assessing the quality of the balance of payments statistics, the degree of objectivity of the assessment processes and the presentation of results at a level of interest appropriate to both statisticians and non-statisticians, as well as the development of an abbreviated version of the framework as a diagnostic tool to determine a particular need for detailed data quality assessment. The Committee recognized that the degree to which the practices identified in the framework were followed would vary, depending on the circumstances of the country concerned.

Part of the Committee's discussion was devoted to the elaboration of the quality assessment terminology. It was suggested that there was a need for a guidance note that explained the objectives, concepts, and structure of the framework, a glossary to explain terms not defined in *BPM5*, and clear guidance on applying the framework. A short index was also considered useful to set out the contents and to guide users through the framework. The IMF will take these suggestions into account when producing the next version of the framework. In the meantime, discussions with compilers and users will continue.

The Coordinated Portfolio Investment Survey

Since its inception, the Committee has expressed keen interest in the Coordinated Portfolio Investment Survey (CPIS). The first survey was conducted at the end of December 1997 (the 1997 CPIS), under the aegis of the IMF. The results were published in December 1999[10] and provide data on the securities' holdings of the 29 participating countries, broken down by counterpart country of issue. The information helps to fill an important statistical gap by providing a database that counterpart debtor countries may use to construct their outstanding securities liabilities, as well as assisting other data analysts in understanding the fastest growing cross-border exposure. It is anticipated that the survey will also assist countries in addressing data gaps in their measurement of financial flows in securities, as well as the associated income flows (see Tables 1 and 2 and *Recent Trends in Balance of Payments Statistics* above). The survey also helps foster bilateral contacts and data exchange.

A companion document,[11] released in September 2000, analyzed the results of the 1997 CPIS and examined the options for the next survey, following the decision by the Committee, at its 1999 meeting, to undertake a new survey at the end of December 2001.

A task force, which had been established in 1999 by the national compilers involved in the 1997 CPIS, met twice in 2000 and its final report was delivered to the Committee by the task force's chairman. The task force also presented the Committee with a draft of the second edition of the *Coordinated Portfolio Investment Survey Guide* (*CPISG2*).[12] The Committee accepted the final report and in general supported the recommendation that the survey be undertaken annually from 2001—although it recognized that not all countries would undertake a benchmark survey every year. (See Box 1 for the main features of the 2001 CPIS.) The Committee also accepted the draft of *CPISG2* and agreed that it be posted on its website, pending finalization of the document. Once the document is finalized, a hard copy version will be published by the IMF and the final version will be placed on the website.

Invitations to participate in the 2001 CPIS were sent by the IMF to many of its members, as well as to several non-member small island economies with international financial service centers. The Committee had agreed at its meeting in 1999 that, if the survey was to be repeated, coverage should be extended to these island economies, as well as to all major industrialized countries. In the event, about 75 countries are expected to participate, including all the participants from the 1997 CPIS, as well as about 20 small island economies with large international financial service centers and all the major investing industrialized countries that did not participate in the earlier survey. The willingness of so many countries to participate in the 2001 CPIS reflects the benefits that these countries anticipate will flow from the availability of data on creditor holdings of securities issues, which will complement the BIS' database on international banking statistics. Given that only one small island economy with an international financial service center participated in the 1997 CPIS, the response from this group of countries to the invitation to participate in the 2001 CPIS reinforces this view.

In preparation for the 1997 CPIS, national compilers chose to hold meetings in which the first edition of the

[10]See *Results of the 1997 Coordinated Portfolio Investment Survey,* op. cit.

[11]Analysis of the 1997 Coordinated Portfolio Investment Survey and Plans for the 2001 Survey, op. cit.

[12]*Coordinated Portfolio Investment Survey Guide, Second Edition (draft)*, IMF, Washington D.C., 2000.

Box 1. The 2001 Coordinated Portfolio Investment Survey

The Coordinated Portfolio Investment Survey (CPIS) is a benchmark survey, designed to collect data on the outstanding holdings of portfolio investment assets as at the end of December 2001, with the data broken down by the counterpart country of residence of the issuer. It builds on the success of the first such internationally coordinated survey of portfolio investment, conducted in 1997 under the aegis of the IMF. Almost 80 countries have indicated their willingness to participate in the 2001 survey.

The survey will provide estimates, at market value, as at the reference date, of countries' holdings of portfolio investment securities issued by an unrelated nonresident entity for:

- equities;
- long-term debt securities; and
- short-term debt security holdings.

Securities held as part of direct investment are to be excluded.

In addition, countries are encouraged (but not required) to produce data on (i) their portfolio investment liabilities, broken down by counterpart country of holder; (ii) the sector of holder of the portfolio investment assets, using either the *BPM5* sector breakdown or the *1993 SNA* sector breakdown; and (iii) the breakdown of the currencies of the portfolio investment assets, in aggregate.

Not only will the CPIS provide countries with the opportunity to establish a benchmark of their outstanding portfolio investment assets, it also should assist in improving data on the financial flows of these instruments and the associated income flows. Moreover, the survey should help countries to establish best statistical practice by benefiting from the experiences of other countries as well as through the use of *Coordinated Portfolio Investment Survey Guide, Second Edition,* which has revised and updated the survey guide used in the 1997 CPIS.

The data for the 2001 CPIS are scheduled to be released in late 2002 or early 2003. It is expected that the 2001 CPIS will be the first of an annual series, which will provide analysts and balance of payments compilers with a very useful additional database, intended to complement the BIS' international banking statistics. These two databases will provide users and balance of payments compilers with creditor data sources, from which it is possible to supplement data of the debtor countries.

Coordinated Portfolio Investment Survey Guide[13] and the more complex issues could be discussed and experiences exchanged. These meetings were deemed to have been very valuable in the successful implementation of the survey. Accordingly, the task force on the 2001 CPIS recommended that similar meetings of national compilers be held as early as possible in 2001 in order to allow the maximum amount of time before the survey date for participants to take advantage of the discussions at these meetings. At these meetings, national compilers would be able to discuss the draft of the *CPISG2*. They would also be offered advice on matters such as how to plan the survey in detail, establish the survey frame, make contacts with respondents (as well as with national compilers in other countries, from whose expertise they may be able to benefit), establish appropriate collection and processing systems, and train staff.

However, in view of the large number of participating countries, and the likelihood that many would wish to send two representatives, it was felt that it would be impractical, and counter-productive, to emulate the 1997 CPIS national compilers' meetings, when all participating countries participated at the same meetings. Accordingly, meetings are to be hosted by the authorities in Australia, Belgium, the Cayman Islands, and Costa Rica. These meetings are primarily regional but there will also be cross-regional expertise to allow for a fuller discussion of the various options and experiences. The Japanese authorities, in recognition of the importance of this undertaking, have kindly and generously agreed to fund the travel expenses of the 60 non-industrialized countries, including the small island economies with large international financial service centers, to enable them to attend these meetings.

At the same time as the 2001 CPIS is to be conducted, the IMF will seek to repeat the survey of the securities held as part of the reserve assets of major-investing countries (SEFER) that was conducted as a supplement to the 1997 CPIS. For many countries, the detail of the geographic distribution of reserve assets is a sensitive issue, so information will be sought on a confidential basis: countries' holdings will be aggregated into a single vector so that no one country's holdings will be identifiable. Similar information will be sought from some large international organizations. There is a need for this additional information to provide as comprehensive a picture as possible of securities held as assets in order to assist countries (and other users) to construct counterpart lia-

[13]Coordinated Portfolio Investment Survey Guide, IMF, Washington, D. C., 1996.

bilities (and help reduce the measured global imbalance between portfolio investment assets and liabilities).

Countries will be asked to report the results of their 2001 portfolio investment survey, together with the results from SEFER, by the end of September 2002. If final data are not available at that time, preliminary data will be acceptable, so that the first results from the survey can be made available as early as possible, either in late 2002 or in early 2003. When final data are available, the results will be updated. If, as is proposed, countries conduct a CPIS every year, then, in due course, the results from the following year will be published, thereby starting a time series.

Countries involved in the 1997 CPIS provided metadata on the approaches they used, the methodology employed, the survey frame, the response rate, and related issues, and also indicated their experiences in dealing with particular problems encountered. The information provided played an important role in the analysis of the results and in the exchange of information between and among the participating countries and will be valuable for future users and compilers. These metadata have been provided to the compilers of balance of payments statistics of all the IMF's membership. Participants in the 2001 CPIS will be asked to provide similar metadata for the same purposes.

In its work, the task force on the 2001 CPIS identified three areas where the international statistical standards offer insufficient guidance: repurchase agreements and securities lending (see also *Reverse Transactions*); trusts; and third party holdings. Accordingly, the Committee agreed to the proposal by the 2001 CPIS task force that further work be undertaken in each of these areas and that the IMF would provide a progress report to the Committee at its 2001 meeting.

Computerized Securities Databases

At its 1999 meeting, the Committee recommended that an inter-agency task force, comprising the BIS, the ECB, and the IMF, be set up to explore the development of a global centralized securities database (CSDB). At its 2000 meeting, the Committee was informed that the task force had sent out a questionnaire to all countries that had participated in the 1997 CPIS, to determine (i) the size of securities markets in those countries represented on the CPIS task force and the availability of data sources; (ii) whether securities databases (SDBs) have been established and for what purpose; (iii) the benefits to statistical compilers from the use of SDBs and their experience of start-up and maintenance costs; (iv) the prospects of establishing national SDBs that serve multipurpose statistical and policy needs; (v) the use that European member countries may make of the European System of Central Banks' (ESCB's) centralized securities database now under development; (vi) countries' plans to establish or further develop national SDBs in the next few years; and (vii) countries' views on what they would need from other countries' SDBs to address perceived deficiencies in their own SDBs (or multipurpose SDB) regarding the coverage of securities issued by their residents abroad. For members of the EU, some additional information was requested by the ECB.

The survey response had been very positive and strongly in favor of the development of a CSDB. In light of this response, the BIS indicated that it is prepared to investigate the feasibility of expanding its collection of information on domestic issues of securities, so that separate data on issues with a residual maturity of up to one year will be available for both international and domestic securities. One notable benefit would be the availability of such a CSDB for the 2001 CPIS. To achieve this goal, there needs to be a willingness on the part of countries to provide the information to the BIS. The BIS would be prepared to receive the data in whatever format it was currently stored, convert the data to a common standard, and then share it with other countries. It was felt that the exercise should be open to as many countries as possible. It was noted, however, that before beginning work on the development of a general framework, it would be useful to await the outcome of the ECB's work on developing its own CSDB, but that currently available information should be used in the meantime. The Committee welcomed the proposal from the BIS, recognizing the need for a quick implementation so that a CSDB, as described above, could be available in time for the 2001 CPIS. The Committee also noted the wider application of such a CSDB for external debt statistics, for the collection of data on international reserves and official sector foreign currency liquidity, and for the construction of monetary and financial statistics.

Reverse Transactions

IMF staff presented a paper to the Committee on the treatment of reverse transactions (commonly known as repurchase agreements, securities lending, gold swaps, and gold loans or deposits). These activities have expanded in volume and complexity in recent years and are either not covered in *BPM5* or are discussed incompletely. The appropriate statistical treatment of these transactions had been the subject of discussion at several meetings of the Committee in recent years; at its 1999 meeting, the Committee received a working paper that reflected in-depth research undertaken by the IMF. At that meeting, the Committee asked the IMF to finalize the paper for the 2000 meeting, with a view to publishing it as an IMF discussion paper. In the event, the paper that was presented to the 2000 meeting reflected further consideration of the issues, particularly in the light of concerns that had been raised by several members of the Committee and issues that had arisen from the development of the new draft guide on external debt statistics. In particular, there was concern that a reverse transaction that was followed by an outright sale of the underlying asset could result in two parties claiming ownership of the same asset at the same time. This could mean that external debt data, for example, could be overstated. Moreover, in the event of default by the party that takes possession of the asset as a result of the initial transaction, the claim of the original owner of the security would be misrepresented as being on the issuer of the instrument, rather than on the defaulting party. In the light of recent financial crises, this was felt to be more than an academic concern.

The IMF paper offered the Committee a number of alternative treatments for consideration. These alternatives ranged from recording (i) no transaction at all (for securities lending that does not involve cash, and for gold loans, only); (ii) a transaction in the underlying instrument; (iii) a collateralized loan; (iv) a collateralized loan with supplementary information; and (v) treating a repurchase agreement as a simultaneous transaction in the underlying instrument and a collateralized loan. This latter option, which is in line with the international accounting standards, would have the benefit of ensuring that the security would be recorded as being held by the party that was the legal owner, thereby removing the potential for double-counting.

Following considerable debate, the Committee decided that the best option was to (i) record repurchase agreements and gold swaps as collateralized loans, with supplementary information on the sector of the counterparty and the issuer of the security and (ii) not to record a transaction at all for securities lending and gold loans/deposits, but instead to provide supplementary information similar to that recommended for repurchase agreements and gold swaps. The Committee felt that in the event of the “on-sale” of the underlying instrument, the on-seller should record a “short” (or negative) position. However, it was also recognized that, for reasons of data sources or institutional arrangements, the recommendations may not be appropriate in some countries. The Committee was also of the view that, given the broad implications across macroeconomic statistical systems, the recommendation should be taken to the Inter-Secretariat Working Group on National Accounts (ISWGNA). In addition, the Committee decided that a working group should be set up on reverse transactions, in conjunction with the 2001 CPIS on-going work program (see also *The Coordinated Portfolio Investment Survey*).

The ECB presented a paper on the treatment of the fee that is paid when securities lending (without cash collateral) is undertaken. It was argued in the paper that, if no transaction is to be recorded in such an instance, then no finance capital has been provided, and it would therefore be inappropriate to consider the fee to be *income* (which represents the payment for the use of a nonproduced asset). However, as there had been insufficient time for the Committee to consider this issue, and as it had been decided that the IMF paper on reverse transactions should be taken to the ISWGNA, it was also decided that the issue of the appropriate treatment of the fee on securities lending without cash collateral should also be taken to that body.

Trade in Services

The Committee was provided with an update on the work of the Inter-Agency Task Force on Statistics of International Trade in Services. This Task Force has focused on the statistical requirements of the World Trade Organization (WTO) in the context of the General Agreement on Trade in Services and has been developing a *Manual on Statistics of International Trade in Services*. This manual goes beyond *BPM5* in several respects—most notably by extending the detail of the list of cross-border services items to coincide with the Joint OECD-Eurostat Trade-in-Services Classification, and adding some limited further extensions, and also describing statistical methodology for the measurement of foreign affiliates trade in services.

The manual was released in draft form in early November 1999 for international discussion and comment. Following worldwide discussions with users during 2000, a revised version was produced in late 2000; this version will be submitted for approval to the United Nations Statistical Commission in March 2001. It is proposed that the manual will be published during 2001.

Reporting Under **BPM5**

The Committee reviewed the progress countries were making in reporting balance of payments and international investment position (IIP) data to the IMF on the basis of the classification system of *BPM5* and their use of electronic reporting. For the 2000 *BOPSY,* 143 countries reported balance of payments data using the coding system of *BPM5* (an increase of four from 1999). One hundred and thirteen countries reported to the IMF in electronic form (up from 103 in 1999), of which 91 reported by electronic mail (up from 76 in 1999). While reporting of IIP data on the basis of *BPM5* is not as advanced as the reporting of balance of payments statistics, there is a growing number of countries reporting such data: for 2000, the number reporting rose to 62, a major improvement from 1999, when 47 countries reported IIP data. Eighty-one countries are now reporting quarterly balance of payments statistics.

Among countries represented on the Committee, most have converted their national balance of payments data in conformity with the concepts and principles of *BPM5*. The Committee received a report describing the implementation of *BPM5* in Saudi Arabia, where, as a result of its history, the importance of its religious sites, and its institutional, cultural, and legal environment, collecting data through surveys poses very considerable difficulties.

Accrual of Interest on Debt Securities with a Fixed Stream of Payments

The Committee was provided with a paper on the statistical treatment of the accrual of interest on debt securities with a fixed stream of payments. The paper was coauthored by Mr. Chris Wright, of the Bank of England, and Mr. John Joisce, of the IMF, in their personal capacities, and may not necessarily have represented the views of their respective agencies. The topic had been discussed at the last three meetings of the Committee. The topic is of particular importance to the Committee because there are inconsistencies in the treatments recommended in the international statistical guidelines, which are reflected in inconsistencies in recording practices between and across countries and institutions.

At its 1999 meeting, the Committee requested that a paper be prepared that would set out the alternative approaches and recommend the appropriate treatment for all macroeconomic statistics, not just for the balance of payments. There are three possible ways of accruing interest: the so-called *debtor approach* (which accrues interest at the rate implicit at the time of issue of the security); the so-called *acquisition approach* (which accrues interest at the rate implicit at the time the creditor purchases the security); and the so-called *creditor approach* (which accrues interest at the rate prevailing during the reference period).

It was also recommended at the Committee's 1999 meeting that electronic discussion groups should be set up (by the IMF and the OECD) to encourage as large a participation in the debate as possible. For the same reason, it was also decided to send a questionnaire to all of the IMF's membership in each of the four areas of macroeconomic statistics: national accounts, balance of payments, monetary and financial statistics, and government finance statistics. Fifty-six responses to the questionnaire were received. The paper presented to the Committee in 2000 drew on those responses.

Many supporters of the debtor approach argue that the *1993 SNA* indicates the use of that approach (though the authors of the paper took dispute with that interpretation); that *BPM5* appears to support the use of the debtor approach in most instances (although the acquisition approach is recommended for deep discounted and zero coupon instruments if these instruments have been traded); and that the *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook* indicate a conceptual preference for the creditor approach although recognizing that its application may be impractical in some instances.

The Wright/Joisce paper explored the underlying rationale for the different approaches and strongly recommended the adoption of the creditor approach as the only one that fitted into a system based on market prices and accrual accounting. The Committee's views were divided on the paper's position: some members strongly supported the logic of the paper's arguments; and others were uncomfortable with the implications of the proposal as changes in interest rates alone could prompt a rise (or fall) in a country's current account balance thus affecting national savings estimates, other things being equal. The Committee was also presented with a paper on this issue from Canada that compared the interest income from the lending of financial capital to the rentals received from the leasing of produced capital items. It called for income consistency—according to either the original agreements (debtor) or the income that the capital would fetch under current market conditions (creditor). The Committee felt the issue of accrual of interest on debt securities with a fixed stream of payments should be referred to the ISWGNA to ensure that momentum was maintained.

Direct Investment

Consistent with its concern about global discrepancies, the Committee has supported a joint IMF-OECD survey of IMF and OECD member countries to explore the extent to which global imbalances in direct investment may be attributable to different country practices. The topic had been a major initiative of the Committee. The report of the 1997 survey, which provides summary details of the OECD/IMF database on country practice, was published on the Committee's website and distributed by the OECD to its member countries in 1999. The report and the database have proved very useful in several international meetings of direct investment compilers and in work on reconciling direct investment data. The results of the survey are stored in an Internet metadatabase that provides standardized information on definitions, data sources, collection methods, and dissemination practices for each country that completed the survey form. The metadatabase indicates the extent to which national compilers have implemented the international standards and facilitates the exchange of bilateral information on compilation practices. It is presently available on request to officials of IMF and OECD member countries and international organizations.

The final version of the report on the 1997 survey was distributed to IMF members and posted on the Committee's website early in 2000. However, there remained the questions of how and when the metadata should be updated. The Committee was concerned about the work load on countries and the priority it should be given and decided that (i) for the OECD countries, the issue should be discussed by the OECD's Working Party on Financial Statistics (WFS) at its meeting in November 2000; (ii) the IMF's non-OECD members should be asked to update the 1997 metadata in 2001 using a revised questionnaire that incorporated recent changes and clarifications to the methodology; and (iii) the updating process should use electronic means of communication to the extent possible to lessen the reporting burden. In the event, the OECD WFS agreed only to asking the OECD member countries to update the 1997 metadata in 2001, and decided to leave until 2002 any revisions to the survey questionnaire, as this would allow more time to discuss the clarification of the treatment of direct investment relationships between banks and affiliated financial intermediaries. In the interest of ensuring consistency in the format of the questionnaire, the IMF has decided to also follow this timetable.

The Committee also reviewed a paper from the ECB on the clarification on the treatment of direct investment relationships between banks and affiliated financial intermediaries and the inclusion of financial derivatives in *direct investment.* These issues had been discussed at the Committee's 1999 meeting. The ECB indicated that they agreed with the clarification of banks' direct investment relationships with affiliated financial intermediaries but that they did not support the inclusion of financial derivatives as separate sub-components of *direct investment* as provisionally recommended in *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual.*[14] The ECB felt that there were insufficient financial derivatives transactions to warrant recording them as a separate subcomponent of *direct investment,* while agreeing that financial derivatives should be included under *other capital* of *direct investment*. However, in view of the need to ensure full and comprehensive concordance with the national accounting instrument classifications, many members of the Committee felt that it was important to maintain a separate subcomponent.

International Banking Statistics

The Committee was advised of the work of the BIS on international banking statistics. Twenty additional countries have been invited to participate in the BIS banking survey: so far Australia and Portugal have agreed to participate in the locational survey and Hong Kong SAR and Portugal have agreed to participate in the consolidated survey. Taiwan Province of China and Turkey have also indicated that they will participate in the consolidated survey in 2001. It is hoped that several more small island economies with international financial centers will agree to participate (at present, six of these economies participate in the locational survey and one in the consolidated survey). It was noted that the BIS, in cooperation with the Inter-Agency Task Force on Finance Statistics, was working on comparing data on short-term external debt from both creditor and debtor sources. Replies had been received from 22 countries and more are expected by mid-February 2001.

The Committee was informed that proposals were in train for further enhancements to the BIS' consolidated data, with the intention of obtaining an expanded coverage of ultimate risk, as well as obtaining off-balance sheet information. The statistics are to be more consistent with the internal risk management techniques of the commercial banks. Consultations are to be undertaken between end-December 2000 and April 2001, with a view to publishing the proposals by the end of 2001, so that the data could be published by the end of 2004.

The BIS is also working to improve all components of international banking statistics, securities and financial derivatives. For securities, the coverage of data on domestic securities will be further expanded and separate data on issues with a residual maturity of up to one year will be provided for both international and domestic securities. For financial derivatives, the preliminary work has been finished on the triennial surveys, which are to be conducted in April 2001 (turnover data) and June 2001 (positions data). Forty eight countries are participating in the survey on foreign exchange and derivatives markets,

[14]See *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual,* op. cit.

26 of which will be developing countries. The surveys will cover altogether up to 29 individual currencies.

Current Account Issues

The Committee was presented with several papers on the estimation of *travel*. A paper from Germany followed up on discussion at the Committee's 1999 meeting. Germany plans to introduce a special purpose household survey to produce estimates of travel debits. A pilot survey is currently under way, and the full survey will be carried out in 2001, when data will still be available from the current source, so that there will be an overlap of source data to give an indication of possible over- or under-reporting in the present data source. The paper noted that the new survey should be able to address several problems with the present data source, including those relating to the coverage of one-day trips. The new survey will have two steps: (i) telephone interviews to determine whether the respondent has traveled; and (ii) a follow-up written questionnaire as the information needed is often hard to obtain over the phone (reflecting reluctance on the part of the respondent to provide the information and/or the fact that the expenditure data may not be readily to hand). It is hoped that the survey will be able to separate business from personal travel expenses (a distinction that is presently not available). Other information such as the length of stay, the number in the party, the form of overnight accommodation, and the socio-economic characteristics of the traveler will also be obtained. There may be a problem in integrating the new information into the current data series, as well as differentiating between data from EMU countries and data for non-EMU countries. No decision has yet been made on how to attempt to avoid a break in the data series. As far as travel credits data are concerned, the Committee was advised that Germany will need to explore other sources, such as country partner debit data, credit card information and information on the number of overnight stays in Germany.

A second paper on *travel* was provided by Chile. Unlike Germany, the main sources of data since 1991 have been drawn from two different agencies, the International Police, which provides data on numbers of travelers, based on administrative records and the National Tourist Board, which conducts surveys on average expenditure and length of stay. These data are not necessarily on the same methodological or statistical bases nor are the definitions consistent with *BPM5*. In particular, although one-day travelers have significantly different expenditure patterns, not least because they do not need accommodation services, one-day travelers are excluded from the National Tourist Board's surveys on expenditure, although they are included in the data on numbers of travelers provided by the International Police. It has been recognized that greater cooperation and understanding of balance of payments needs by the other agencies will lead to improved statistics. The Chilean authorities have recently assessed how best to address some of these problems, such as increased coverage, more timely data, and improved training. A number of these needs are being considered for future data collection or have been already been accepted. A tourism satellite account for 1996 was produced last year by the National Tourist Board. Chile is now re-examining its estimation methods, given the importance of travel to the economy. One aspect to note is the difficulty of disaggregating data for package tours; more research work is to be undertaken to improve these data (not least because it is possible that some double counting with *transportation* may occur).

The Committee was provided with a technical report from Eurostat on the work that is being undertaken by EU member states to improve their travel estimates in light of the disappearance of the national currencies in the euro area, as well as to support the member states in their efforts to develop and improve their travel estimates. The report summarizes country sources and methods, and tries to evaluate both the current practices and the future plans of the member states. At present most EU countries are using an international transactions recording system (ITRS) as their main data source, while Italy, the United Kingdom, and Ireland use frontier surveys. Spain will begin a frontier survey soon.

There are four main options for future data collection and compilation: frontier surveys; household surveys; a hybrid of administrative sources, frontier surveys and ITRS collection; and credit card sources. Frontier surveys are not always appropriate, given the number of entry points—they are high cost surveys, often conducted in unpleasant or rushed environments (so that the respondents are unlikely to be prepared to give the time and attention to the information being requested), special training of the interviewers is required, and for many Schengen countries there are no land border controls. Household surveys have some advantages but they can provide data on travel debits only, and need to be linked to other countries' data series, with associated difficulties of sampling. There is also a problem with respondents recalling expenditure some time after the event.

The Committee was advised that many countries are looking at the fourth option, and France, which plans to use credit card data as a major source, has carried out some work in this area. The work by France indicates that about 40 percent of travel expenditures are conducted via credit cards. However, use of extrapolation may be limited as this method may introduce an upward bias in business travel estimates and a downward bias in personal travel estimates. It was noted that other EU countries are likely to use credit card data as a supplementary source of data. The major problem with using credit card data is the growing use of credit cards for e-commerce. To overcome this problem it may be possible to have the financial institutions provide a breakdown identifying those transactions that lack a signature; these could be assumed to be e-commerce transactions.

It was noted that partner country data can be an important source for some countries. The Committee was advised that Eurostat is willing to participate in bilateral reconciliations with any other countries that might wish to do so. The Committee welcomed these initiatives as it recognizes the importance of regional work in the ongoing effort to reduce global imbalances (see *Recent Trends in Global Balance of Payments Statistics*).

The Committee was presented with a paper describing how data on drug smuggling have been estimated in Russia, using modeling techniques based on the number of known addicts in Russia. The model provides the means to estimate: (i) the volume and market value of drugs trafficked; (ii) the volume and market value of drugs consumed by both occasional drug users and addicts; (iii) the volume and value of Russian-made drugs; (iv) the volume and value of drugs imported from abroad; and (v) the value of drugs brought into Russia at the average prices in the exporting countries. The estimation method makes use of data that are available from the Interior Ministry. The share of the "shadow" economy is estimated to be around 40 percent (at f.o.b. prices) of the total use of drugs in Russia. At present, the data obtained from the model are not included in the national accounts or the balance of payments estimates but work is expected to continue. However, as the counterpart financial account transactions are probably collected through the normal collection processes, net errors and omissions are likely to be affected.

Monthly Balance of Payments Statistics

The Committee reviewed three papers on monthly balance of payments statistics; the first two (by the United Kingdom and Germany) provided two very different compilation perspectives, while the third paper, from the ECB, provided a user perspective.

The approaches to compiling monthly data in the United Kingdom and in Germany differ markedly. In the United Kingdom, monthly data are used wherever these are available (for example, data on merchandise trade), proxy or indicator data are used where these are available on a monthly basis, and modeling techniques are used for the remaining components. In this latter case, a quarterly forecast is made, and monthly data are produced from this forecast using mathematical techniques. For the financial account, modeling is very difficult. Data on mergers and acquisitions, banking data, and reserve asset data are all used. The Committee was advised that the monthly balance of payments for the United Kingdom had no systematic use for the Bank of England's Monetary Policy Committee's policy purposes, and that the monthly data were produced solely for the ECB.

In Germany, on the other hand, the full balance of payments statement is produced on a monthly basis, and quarterly statistics are obtained as the sum of the appropriate months. The monthly data are based on various sources such as banks' reporting and direct reporting of banks and nonbanks as well as administrative sources for data on household activity and short-term transactions of banks and nonbanks derived from stock data. The data are produced on a timely basis but there is a trade-off between accuracy (for the most recent months) and timeliness. Compiling monthly data is a labor-intensive exercise. The work load is regular and it does not allow much time to debate methodological and conceptual issues in the case of new developments so that problems can accumulate. Even so, the Committee was informed that compiling balance of payments on a monthly basis required as much "detective work" as compiling them on a quarterly basis. Allocation of transactions to the correct period is sometimes problematic (which is clearly more of an issue for monthly than quarterly data) and the importance of educating respondents was stressed.

Complete monthly balance of payments statistics, including geographic details, have been produced in Germany since 1956. Data are revised back three years on a regular basis and back to 1971 in instances of conceptual changes, if the information is available. Given Germany's integration with, and hence vulnerability to, the global economy, it has long been considered important to produce monthly data. It was noted that the business cycle in Germany was largely driven by the rest of the world's impact on the German economy.

The ECB paper emphasized the importance of monthly data in the euro area context. Increasingly, portfolio investment is more a reflection of direct investment transactions (as many mergers and acquisitions have been financed through share exchanges) or investors' assets management, rather than current account balances. There are two "pillars" that inform ECB's monetary policy. The first relies on the developments in M3 and its counterparts and the second covers a broad range of indicators such as the Harmonised Index of Consumer Prices, the euro exchange rate, and the balance of payments, with the focus on the financial account. It was noted that the ECB intends to use the "monetary presentation of the balance of payments". The ECB feels that as M3 is a monthly variable, the other main policy indicators should also be monthly. Euro area countries are required to contribute to the monthly euro area balance of payments; where collection systems have not yet been adapted to this requirement, modeling is used by some countries (for example, Ireland). EU countries that are not participating in the euro area (the United Kingdom using some modeling, Denmark, and Sweden) provide the ECB with national data on a voluntary basis. The Committee was advised that it was unlikely that any one particular month would be able to pick up a turning point, but it was more likely that this would happen in the following month or two, making it preferable from a policy position to use monthly data. The ECB is of the view that as timeliness is critical, consistency between the monthly and quarterly data is sought to the extent possible, and that, while it is preferable to use *BPM5* concepts, in practice, departures had to be accepted, including the use of cash-based data for income estimates.

The Committee's views on the need for, and importance of, complete monthly balance of payments statistics were divided. Some members felt that these were very important for policy purposes, while others said that their experience was that complete monthly statistics were too unreliable to be useful. The views of the Committee members frequently depended on the tradition of both users (domestic and international) and compilers, and on both the degree of openness of an economy and the statistical practices and culture (for example, whether the statistics are ITRS- or survey-based, and the willingness of users to accept revisions), which in turn affected the demand for, and production of, monthly statistics.

Training for Users of Balance of Payments Statistics

The Committee discussed an IMF staff paper on the question of training for users of balance of payments statistics. The IMF saw a need to train users at the decision-making level, primarily to ensure that there was a reasonable allocation of resources for the compilation of macroeconomic statistics as it was noted that technical assistance is more effective if it receives high level support in the recipient country. The question of how to involve decision-makers is even more difficult when several different agencies are involved. Accordingly, the IMF saw there was a need for more training for users, to ensure that senior policy officials recognize the need to link statistics to policy. However, careful attention needs to be paid to the form of the training because statisticians may tend to focus on items other than those likely to convince senior policy officials of the importance of the data.

In response to these concerns, the IMF has attempted to address this issue (which is still work-in-progress) by holding a three-day seminar in Asia as a trial run for 11 agencies that use macroeconomic statistics. The seminar focused on providing minimum information on the balance of payments framework itself, so as to move as quickly as possible to the uses of the data. The participants were enthusiastic and had recommended a similar exercise for more senior members of staff.

Parallels were noted between the IMF paper discussed by the Committee and the IMF Occasional Paper No. 189,[15] which had been prepared for the former Soviet Union countries. It was felt that the paper provided a very useful description of the link between saving, investment and the balance of payments, and also a valuable explanation of how to examine whether a structural deficit is being driven by the public sector or the private sector. The Committee felt that it was very important to explain to users the links between and among all the macroeconomic statistics.

The Committee found the IMF paper to be a good start to filling the need for the provision of training on how balance of payments statistics are used and expressed an interest in developing it further. Further feedback was welcomed by the IMF although, given the present resource constraints and work demands, it was not clear how fast the issue could be taken forward. However, it was thought that the paper might be strengthened and used in specific country settings. For example, the links between exchange rate regimes and external vulnerability should be discussed in more detail in the light of recent IMF studies on this issue.

International Financial Stability and Transparency

The Committee was also updated on the implementation of the data template on international reserves and foreign currency liquidity. The template had been jointly drawn up by the IMF and a working group of the BIS' Committee on Global Financial Systems (the latter representing the G–10 central banks) for use by countries in reporting detailed information on reserve asset holdings and other foreign currency assets and liabilities (both ac-

[15] *Current Account and External Sustainability in the Baltics, Russia, and Other Countries of the Former Soviet Union* Author/Editor: Donal McGettigan, IMF, Washington, D.C., 1998.

tual and contingent) of the monetary authorities and the central government. The IMF's Executive Board had adopted the template in March 1999 as the prescription for the international reserves category of the SDDS, with a transition period for introducing its requirements that was to end in March 2000. The Board charged the IMF's Statistics Department with the responsibility for producing operational guidelines to clarify the reporting requirements. Provisional guidelines were released in October 1999 and are posted on the website. A new set of guidelines will be published early in 2001, to take account of countries' experiences in implementing the provisional guidelines.

To facilitate access to the data, and to ensure a standardized presentation, the IMF's Statistics Department has established a website for the data from those countries that have agreed to participate in the IMF's exercise. The Committee was advised that 43 of the 49 SDDS subscribers and six non-SDDS subscribers were providing the data to the IMF in a standardized format. These data can be found at *http://www.imf.org/external/np/sta/ir/colist.htm.*

The Committee was provided with a progress report on the preparation of the new guide for external debt (*External Debt: A Guide for Compilers and Users*) that is being developed by the Inter-Agency Task Force on Finance Statistics. The Committee recognizes that the new guide on external debt statistics is an important and ambitious undertaking. The present guide, published in 1988, is now out of date; the new guide needs to take account of changes in financial markets and instruments and new analytical demands identified in the assessment of the recent international financial crises. The new guide takes the conceptual framework of *1993 SNA* and *BPM5* as the bases for its construction and is consistent with those documents, while allowing for other users' needs.

While introducing national account and balance of payments concepts into the measurement of external debt positions, the new guide will acknowledge that there is more than one way of measuring and presenting gross external debt position data. Looking ahead, it is anticipated that an expanded version of the guide will be available for review by IMF member countries early in 2001.

One purpose of the new guide will be to provide guidelines that meet the prescriptions for external debt that were introduced into the SDDS and GDDS in March 2000. In many countries the work required to meet these prescriptions is significant and for this reason the transition period for the SDDS subscribers runs until March 31, 2003. To assist countries in this effort, in addition to the new debt guide, the IMF, with assistance from other members of the Inter-Agency Task Force on Finance Statistics and financial support from Japan, is conducting regional seminars for SDDS subscribers, and for other strategically important countries on external debt statistics.

The Committee recognized the potential double-counting of external debt that might arise if repurchase agreements and securities lending are treated simply as collateralized loans (see *Reverse Transactions*). To help address this problem, the Committee agreed that supplementary information should be provided.

Valuation of Loans That Have Been Traded

The Committee considered a paper from the Bank of Japan on the appropriate valuation treatment of loans that have been sold. It was pointed out that this is an important issue for Japan, where non-performing loans have been sold at a discount to nonresidents. It was noted that in *BPM5* the recommendations for the valuation of tradable loans in the IIP statement lead to asymmetrical recording of assets and liabilities. This raises the issue of the appropriate valuation principle to be applied to these loans: the market value or the nominal value.

Some Committee members felt that this was an area where the methodology recommended in *BPM5* might be reconsidered, especially in the light of the growing importance of such activity and the increased blurring of the lines between financial instruments. It was noted that *BPM5* clearly recognizes circumstances when a loan can be traded: *BPM5* recommends the use of market prices for tradable loans on the asset side, but the use of nominal values on the liability side. It justifies this treatment because of circumstances in which the debtor is prohibited from buying back its liability in secondary market. But this approach leads to global asymmetry. The tradability of loans also raises the question as to whether loans become securities under such circumstances. *BPM5* implies a positive answer but it does not explicitly state this. It was observed that both nominal and market price valuations are useful and that *BPM5* recognizes that fact by advocating the publication of supplementary information.

Regional Issues

Eurostat provided the Committee with an oral report regarding the introduction of the euro, and the request of multinational enterprises for more harmonization of reporting requirements by the various countries. Regarding the introduction of the euro, most countries are using ITRS systems, and banks are finding the reporting requirements for balance of payments burdensome. Currently the needs of users, both national and international, are being reassessed, and a common input coding system is being developed in conjunction with the ECB, for use by both banks and individual enterprise reporters. For 2002, the threshold for reporting in the ITRS will be raised to 12,500 euros, and investigations are being made of individual country's systems to determine what should be done about the loss of information. A Technical Group of EU member countries is investigating, in cooperation with the ECB, new ways to collect balance of payments data, which are likely to rely less on bank reporting and more on direct reporting by companies. Regarding the reporting of multinationals, Eurostat is working on the development of a common reporting form. Difficulties arise because of the different processing systems that are used in different countries, and also because of the need for consistency with the work on the common input coding system.

Tourism Satellite Accounts

The Committee was given a brief update on the current status of development of tourism satellite accounts (TSAs). Two documents had been provided to the Committee (the OECD publication *Measuring the Role of Tourism in OECD Economies: The OECD Manual on Tourism Satellite Accounts and Employment*, and *Tourism Satellite Account (TSA): Methodological References,* which was jointly developed by the World Tourism Organization, the OECD, and Eurostat and is to be published by the United Nations). The conceptual frameworks are identical; however, in its presentation, the OECD document has a national accounts view, whereas the World Tourism Organization document takes a "tourism" perspective.

Regarding the substance of the TSAs and the links to the balance of payments, it was noted that there is no clear concordance between the *BPM5* travel component and the transactions between residents and nonresidents in tourism. There are differences from *BPM5* in the treatment of students and patients, and, in certain circumstances, border shopping. In addition, most transportation costs are not included in travel. The Committee was advised that in both TSA documents, the focus of the commodity breakdown is overwhelmingly on services, which should lead to improved measurement of these transactions in the balance of payments. About 12 countries have developed some form of TSA (for example, Chile, see *Current Account Issues*) and several are planning to repeat the exercise; other countries have indicated their intention of producing a TSA.

Macroprudential Indicators

The Committee was brought up-to-date on developments regarding macroprudential indicators (MPIs). Recently there has been considerable international interest and discussion on this topic. Two kinds of data are proposed for inclusion: (i) aggregated statistics from individual financial institutions; and (ii) macroeconomic variables, including data on balance of payments, economic growth, rates of inflation, interest and exchange rates, reserve assets, terms of trade, maturity spectra, and composition of capital flows, all of which have an impact on financial stability. Together with the World Bank, the G–7 and others, the IMF is interested in the development of MPIs. Following a consultative conference, hosted by the IMF in September 1999, a questionnaire had been prepared and dispatched by the IMF as it was felt that there was a need for more knowledge and understanding of country practices. The survey sought information on what data were available and what additional information might be required. A maximum of 40 responses had been anticipated from the IMF's membership; in the event, over 110 countries replied. The Committee was advised that the substance of the results of the survey would be included in a paper expected to be presented to the IMF's Executive Board early in 2001.

The intention is to develop a core set of data that are widely used, and that are statistically sound and based on sound accounting practices. The IMF's Monetary and Exchange Affairs Department is to develop a set of indicators that are felt to be theoretically relevant: this work will be done as part of the financial assessments that are conducted by the IMF. The Committee had been advised at its meeting in 1999 that the pressures for the work had already began to build; the concern now is how to find the resources to deal with the work load. It was noted that the work of the ECB and the BIS would be coordinated with that of the IMF. The Committee will be kept apprised of further developments.

Nonproduced, Nonfinancial Assets

The Committee considered an IMF staff paper on the treatment of nonfinancial, nonproduced assets. It was noted that the impetus for the paper was the auctions that had taken place during 2000 in several countries, notably European, of the right to use a broadcast spectrum for mobile phones, and that there was a possibility of effects on the balance of payments statistics. In several instances, very large values had been involved and Eurostat had had to make a decision very quickly. The views of member states of the European Union had been sought, and the issue had then been discussed at a meeting of the ISWGNA in June 2000. The issue had also been discussed at the Committee of Monetary, Financial and Balance of Payments Statistics in September 2000; and an electronic discussion group has also been created.

Several options for treatment had been proposed: (i) as a service; (ii) as a tax; (iii) as a sale of the spectrum itself; (iv) as a sale of a license to use the spectrum; or (v) as rent. It was soon clear that treating the transaction as a service was not appropriate as the payments made are clearly out of all proportion to costs to the government of making the spectrum available to the licensee. Similarly, treatment as a tax was also discarded very early as there was clearly a *quid pro quo*. The issue then revolved round the last three options. It was recognized that the spectrum itself was a nonproduced asset. As the situation involved an asset with an infinite life, but an auction that gave the user the right to use the asset for only a limited number of years, it was felt that the asset itself had not been sold. Moreover, at the end of the life of the license, the right to use the spectrum would revert to the government. It was noted that it was possible to treat the transaction in an analogous manner to a financial lease but this suggestion had not been strongly supported, not least because, other things being equal, there would be a very large residual value. As a consequence, it was felt that the choice lay between treatment as the sale of a nonproduced intangible asset separate from the spectrum itself (i.e., the license), and treatment as rent of the spectrum.

The ISWGNA concluded that the licenses met the *1993 SNA* criteria for treatment as the sale of a nonproduced, nonfinancial, intangible asset. Similarities with patents and land had been indicated at the meeting of the ISWGNA; it had been felt by some that there was a stronger case for treating such transactions as the sale of an asset if it were transferable, but that this was not a necessary condition. The Committee was advised that the ISWGNA felt that the issue was less clear if the license could be revoked unilaterally or if it was for a very short period: the ISWGNA thought that the usual one-year rule should apply, whereas Eurostat felt that, under the special circumstances, a five year rule might be more appropriate. If treatment as rent were chosen, the implication would be that the benefits and risks of ownership during the life of the license lie with the government.

The IMF staff paper pointed out that, given the infinite life of the spectrum asset, and assuming its value was not affected by changes in technology, the value of the spectrum asset remains unchanged over time. Consequently, as the license's life shortens, i.e., as the license is used, its value falls but the social value of the spectrum remains unchanged. Accordingly, the residual value of the spectrum asset will increase and should be amortized in the general government sector (through the "other changes in assets accounts").

The Committee was informed that this issue was not yet resolved (although the ISWGNA inclined to treat the transactions as the acquisition/sale of a nonproduced, nonfinancial, intangible asset—i.e., acquisition/sale of the license) and that further work needs to be done. It was noted that the acquisition costs/sales could be treated as income and expense but the IMF paper did not support this view. The similarity was noted between the issue of mobile phone licenses and that of domain names and commercial licenses for fishing in open seas, as well as long-term leases more generally. In line with the discussion on *Towards BPM6* (see below), these transactions represented part of a rapidly changing world, a new class of assets (rights) that the present system does not treat adequately.

Some of the Committee members supported the views expressed in the IMF paper, noting the similarity of the issues to long-term leases for subsoil assets and land, but the undue degree of complexity was questioned. It was also pointed out that while, at first glance, this might not appear to be directly a balance of payments issue, (financing arrangements apart), as the transaction might generally be considered to be between a resident unit and the government of the domestic economy, under certain circumstances it could affect the balance of payments statistics.

Towards BPM6

At its 1999 meeting, the Committee had asked the IMF to prepare a paper on the areas of *BPM5* that need updating. To that end, an IMF staff paper listing various aspects of the balance of payments framework that might be reviewed, extended, or clarified in a new edition of the BPM was presented for the Committee's consideration.

The Committee was cautioned that it would be premature to propose that immediate work be undertaken on preparing a new edition of the BPM, as many countries have just moved to *BPM5*, while others are still using *BPM4* or earlier editions of the BPM. It was felt useful, however, to have a compendium of the work that needs to be carried out (along with a list of the changes that have already been made since *BPM5* was published), which will ultimately be incorporated into a new edition. The economic environment had changed significantly since *BPM5* was published, reflecting a new round of trade negotiations; work on statistics of international trade in services; an increased focus on position statistics; development work on the statistical treatment of reverse transactions, accrued interest, financial derivatives, and transactions in nonproduced, nonfinancial assets; and the development of new frameworks in other statistical areas, in particular in money and banking, government finance, external debt, and the data template on international reserves and foreign currency liquidity. Additionally, a range of issues have been discussed by the Committee in recent years. It was suggested that one of the roles of the Committee could be to take stock each year of the issues and the work being done on the growing compendium.

The IMF paper organized the aspects that needed updating under three headings: theoretical; emerging issues; and clarification. Under the first category the paper lists, among others: (i) better explanations of the links to the macroeconomic statistics; (ii) the treatment of financial intermediation services indirectly measured, including any service element that might exist in the spread on financial derivatives; (iii) whether dividends should be regarded as a disbursement of capital rather than as income; and (iv) a fuller examination of the appropriate treatment of trusts and holding companies. The paper included under emerging issues: (i) a fuller exposition on the links between the IIP and the external debt statistics; (ii) a closer alignment between the sectors in the balance of payments and the other macroeconomic statistical frameworks; (iii) the treatment of stock options; and (iv) a discussion on e-commerce, in addition to the items already noted above. Under the clarification category, the paper notes that several areas have received a fuller discussion since the release of *BPM5*. These include: (i) the provisional operational guidelines to the data template on international reserves and foreign currency liquidity (which provide, *inter alia,* clarification of the recording of reserve assets); (ii) direct investment relationships; and (iii) several items discussed by the Committee over the recent past, such as shuttle trade, barter trade, capital subscriptions to international aid agencies, and concessional loans. The paper also indicated that differences, either real or apparent, between *BPM5* and the *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook* could be resolved as part of the update process.

The Committee generally agreed that it was appropriate to begin thinking about these issues, especially given the rate of change in the world's economy over the last seven years, since the publication of *BPM5,* and the fact that compilers need advice and guidance on developing issues as soon as possible. Moreover, given the length of time it takes to write and review a new manual, it was felt that it was not too soon to begin the process of review. It was noted that there has been a program of updates to *BPM5* through the work of the Committee, with varying degrees of formality, such as the work on financial derivatives, accrued interest, reverse transactions, and reserve assets and foreign currency liquidity. Producing a compendium of issues would not stop this process; the IMF would continue to work on updating *BPM5* as appropriate. Among the Committee members' suggestions were that:

- More emphasis be given to the discussion of residency, focusing in particular on regional aggregates and offshore centers.
- Consideration be given to discussion of the geographic attribution of both transactions and positions, given the increasing tendency towards compilation of partner country data.
- Further discussion of the relationship between the balance of payments framework and the merchandise trade data be considered, especially in light of the new United Nations manual on merchandise trade.[16]
- Thought be given to the publication of a hardcopy manual that allows for easy updating, for example, in a ring binder format.
- A chapter or annex be added containing the substance of the purpose of the statistics (for example, the training material for users discussed above (see *Training for Users of Balance of Payments Statistics*), and clearly indicating the links to the other macroeconomic statistics.
- The revision be made available on the Internet as well as in other electronic forms (such as CD-ROM).
- Guidance be provided on calculating spread earnings.
- A discussion be included on the valuation of trade in goods (specifically, the calculations for allocation of freight costs to transportation and insurance services).
- A discussion be included on the treatment of *short* sales in general (that is, instances in which an entity sells assets that it does not own).
- The estimation of insurance services be reviewed, noting the problems that arise under the present recommendations in the event of catastrophic claims.
- A discussion be included on the distinction between income and holding gains (and losses).

The Committee also gave thought to the process for updating the BPM—whether it would be better to have incremental changes or to wait for a single change (as with *BPM5*). The Committee debated the pros and cons of these approaches. On the one hand is the importance of there being one common standard that all counties could

[16]*International Merchandise Trade Statistics: Concepts and Definitions*, United Nations, New York, 1998.

be expected to move toward within a reasonable period of time (thereby assisting in international comparability). On the other hand is the importance of endeavoring to remain as current as possible in an ever-changing, and an ever-more-rapidly-changing, world. The weight of opinion tended to support an incremental approach, with releases in electronic form, as well as in a hardcopy format that could be readily updated (such as a loose-leaf binder).

A further question discussed was how to bring the process of change into the public domain. At the moment, the balance of payments newsletters and website are used to publicize proposals for updates and the results of the work in particular areas, but it was suggested that more formal procedures are perhaps needed for identifying the work to be done, for agreeing updates and clarifications to *BPM5,* and for putting this work into the public domain. How, and to what extent, should the rest of the world be involved in the approval process? It was suggested that the solution may be to adopt similar procedures to those used for clarifying or updating the system of national accounts. It was proposed that the IMF provide a paper for the 2001 meeting of the Committee that would include proposals for the approval process and the means of placing changes into the public domain, and outlining different views on how to carry this through.

Future Work Program

Appendix 3 sets out in detail the medium-term work program agreed by the Committee in 2000. Subjects are ranked by priority. The rankings are not intended to reflect the absolute importance of each topic but rather to reflect the relative priority assigned to each topic by the Committee, given the limited time and resources available for research and investigation.

A top priority for the Committee is the continuing refinement of the work on external debt and the IIP. In particular, the continuation of the IMF's involvement in the work by the Inter-Agency Task Force on Finance Statistics to release a new guide on external debt in 2001 will be of considerable value to the IMF's ongoing work on improving data availability, quality, and transparency and will assist in the IMF's surveillance work. Related to this is the continuing work by the BIS on the production of international banking statistics, which is an important input to both the joint BIS-IMF-OECD-World Bank debt statistics, and to bilateral reconciliations and improvements of data for national sources. At the same time, given the Committee's decision to conduct the second Coordinated Portfolio Investment Survey as at December 31, 2001, countries' preparations for the survey and the IMF's efforts to expand the coverage of the survey are top priorities. The IMF will provide a progress report to the Committee at its 2001 meeting that will describe the meetings of national compilers, the follow-up to those meetings, and the outcomes of the work of the several working groups. Associated with this work is the development of a centralized securities database (CSDB). The task force on a CSDB will report back to the Committee in 2001 on responses to the BIS' invitation to countries to provide the BIS with their existing securities databases so as to extend the BIS securities database to include a much fuller coverage of domestic issues of securities; and on the extent to which the CSDB will be available for the 2001 CPIS. Also assigned top priority is the issue of the data quality framework. The IMF and the representative from France will provide papers on this very important issue to the 2001 Committee meeting.

High-priority subjects include papers from Eurostat and the ECB on the state-of-play on the move toward the possible harmonization of the reporting of data for balance of payments purposes by multinational corporations. During 2001, the *Manual on Statistics on International Trade in Services* will be published, following the process of international review; the IMF will report to the Committee on further work of the Inter-Agency Task Force on Statistics of International Trade in Services. In addition, the IMF will conclude its work on producing, for publication, a document on the statistical treatment of repurchase agreements, securities lending, gold loans, gold swaps, and gold loans. The IMF will also update the Committee on the outcome of the discussion of the ISWGNA on this subject. France will provide a paper on the practical aspects of the recommended treatment of reverse transactions. In addition, the IMF will report on the progress of the CPIS working groups on the size and statistical importance of reverse transactions, trusts and third party holdings. The IMF will also produce a paper on what review procedures and processes should be set up to resolve and/or update issues that are inadequately covered in *BPM5*, and how to place these issues into the public domain, once resolved. The IMF will provide an update on, and country experience with, the implementation of *BPM5*. The IMF will also present a report to the Committee summarizing the deliberations of the ISWGNA on the appropriate macroeconomic statistical treatment of accrual of interest on debt securities.

Medium-term priority has been given to an IMF paper on global imbalances in the balance of payments statistics and to a paper from Eurostat on asymmetries in EU countries. Work will continue on training on the uses of balance of payments statistics. The 2001 Committee meeting will be presented with a report by the IMF and

Russia on the development of course material, and with papers on training prepared by the United Kingdom and the ECB. A paper will be provided by Australia on developments in measurement for its travel accounts, and the IMF will report on the development of a website on travel methodology. France will provide a paper on the use of credit cards for travel and e-commerce uses. The ECB and Eurostat will provide a progress report on developments in balance of payments statistics at the regional level. The IMF will report on progress in 2001 on updating the metadata on national practices for compiling direct investment data and preparations for a revised direct investment questionnaire for a survey planned for 2002. The IMF will also report to the Committee on the outcome of the discussion by the OECD's WFS on the clarification of direct investment guidelines.

If time permits, conceptual issues related to the treatment of nonproduced, nonfinancial assets in the balance of payments and the IIP and the associated income will be explored. The IMF will also report on developments on macroprudential indicators.

2001 Meeting

The Committee accepted the generous invitation of Japan to host its next meeting in Tokyo. The meeting will be held October 24–26, 2001.

Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 2000

Chairwoman

Carol S. Carson
IMF, Statistics Department

Members

Abdulrahman Al-Hamidy[1]
Saudi Arabian Monetary Agency
Antonello Biagioli
Ufficio Italiano dei Cambi
Jean-Baptiste Bourguignon
Banque de France
Stuart Brown
Office for National Statistics, United Kingdom
Teresa Cornejo
Banco Central de Chile
Masahiro Hoka
Bank of Japan
Ivan King[2]
Australian Bureau of Statistics
Ralph Kozlow[3]
U.S. Department of Commerce
Pim Kramer
De Nederlandsche Bank N.V.
Christina Kruse
Deutsche Bundesbank
Lucie Laliberté
Statistics Canada
Ernest van der Merwe
Reserve Bank of South Africa
Neil Patterson
IMF, Statistics Department
Isabelle Rabaud
Ministry of Finance, France
Toru Oshita[4]
Ministry of Finance, Japan
Sergei Shcherbakov
Central Bank of Russia
Soon Teck Wong[5]
Department of Statistics, Singapore

Chairman of the Task Force on the Coordinated Portfolio Investment Survey

Gunnar Blomberg
Riksbank of Sweden

Representatives of International Organizations

Paul van den Bergh
Bank for International Settlements
Rainer Widera
Bank for International Settlements
Jean-Marc Israël
European Central Bank
Paul McCarthy[6]
Organization for Economic Cooperation and Development
Jean-Claude Roman[7]
Statistical Office of the European Communities

Secretariat

Margaret Fitzgibbon
IMF, Statistics Department
John Joisce
IMF, Statistics Department

[1]Mr. Al-Hamidy was accompanied by Mr. Suleiman Al-Ofi at the 2000 Committee meeting.
[2]Mr. King was represented by Mr. Michael Davies at the 2000 Committee meeting.
[3]Mr. Kozlow has replaced Mr. Christopher Bach.
[4]Mr. Oshita has replaced Mr. Yoshiaki Terai.
[5]Mr. Soon was accompanied by Mr. Chong Lee Ming at the 2000 Committee meeting.
[6]Mr. McCarthy has replaced Mr. Peter Richardson.
[7]Ms. Elena Caprioli represented Mr. Roman at the 2000 Committee meeting.

Appendix 2
Terms of Reference of the IMF Committee on Balance of Payments Statistics

1. The Committee will oversee the implementation of the recommendations presented in the *Report on the Measurement of International Capital Flows* and in the *Report on the World Current Account Discrepancy*, advise the IMF on methodological and compilation issues in the context of balance of payments and international investment position statistics, and foster greater coordination of data collection among countries.

2. The Committee will bring to the attention of the IMF new developments that impact on the compilation of statistics of cross-border transactions or related stocks of financial assets and liabilities, and work with the IMF in determining how these activities should be treated in accordance with *BPM5*.

3. The Committee will investigate ways in which data collection can be better coordinated among countries, with a view, *inter alia*, to facilitating the exchange of statistics among countries (e.g., bilateral transactions or stock data). It will also identify related areas for study and determine how work in those areas should be carried forward.

4. In carrying forward its work, the Committee will collaborate with other national compilers and with appropriate international organizations.

5. In consultation with the IMF's Statistics Department, the Committee will determine its work program and will meet under IMF auspices at least once a year.

6. The Committee will prepare an annual report for presentation to the Managing Director of the IMF.

Appendix 3
Medium-term Work Program of the IMF Committee on Balance of Payments Statistics: End-December 2000

Subject	Issue	Action
Top Priority		
External debt and IIP	Improvement in reporting of external debt data within the international investment position (IIP) framework	Paper by IMF on developments at Inter-Agency Task Force on Finance Statistics Report by IMF on development of users and compilers guide to external debt statistics
International Banking Statistics	Use and improvement of international banking statistics	Report by BIS on progress
Coordinated Portfolio Investment Survey	Preparation for conducting year-end 2001 survey	Report by IMF on preparations for the 2001 CPIS Reports of CPIS working groups on Third Party Holdings and Trusts
Securities Database	Development of database	Report by IMF on results of inter-agency task force (BIS, ECB and IMF) investigations
Data Quality	Development of Data Quality Assessment Framework	Reports by IMF and France
High Priority		
Reporting of data by multi-national corporations	Harmonization of balance of payments data requirements of multi-national corporations	Papers by ECB and Eurostat IMF to facilitate membership input to the Eurostat Technical Working Group
Trade in Services	Clarification of conceptual framework/classification	Report by IMF on activities of the Inter-Agency Task Force on Statistics on International Trade in Services
Toward a sixth edition of the *Balance of Payments Manual*	Review of procedures and process for resolving, updating and putting in public domain issues that are inadequately covered in *BPM5*	Paper by IMF
Reverse transactions	Practical aspects of treatment of reverse transactions Outcome of discussion of Inter-Secretariat Working Group on National Accounts	Reports by CPIS working group and by France Report by IMF
Implementation of *BPM5*	Update on implementation and practical difficulties in implementing *BPM5*	Paper by IMF on *BPM5* reporting to the IMF
Accrual of interest on debt securities	Need for consistency across statistical systems, including balance of payments	Report by IMF on deliberations of Inter-Secretariat Working Group on National Accounts
Medium Priority		
Global discrepancies	Indication of imbalances in global balance of payments statistics	Paper by IMF on global imbalances Paper by Eurostat on asymmetries in EU countries
Training	Uses of balance of payments data	Report by IMF and Russia on investigations into developing course material Papers by the United Kingdom and the ECB
Travel account	Issues on measurement of travel account in France Developments in the travel account	Paper by France on the use of credit cards and e-commerce Report by IMF on the development of a website on travel methodology Paper by Australia
Regional issues	Developments in balance of payments data at the regional level	Progress report from ECB and Eurostat
Direct Investment	Exchange of experience in compiling direct investment data	Report by IMF on progress on updating metadata for national practices and revised questionnaire for survey in 2002 Report by IMF on OECD meeting on clarification of direct investment guidelines
Low Priority		
Nonproduced, nonfinancial assets	Treatment of nonproduced, nonfinancial assets in the balance of payments and the IIP Treatment of income from use of nonproduced, non-financial assets in the balance of payments statistics	Papers by IMF
Macroprudential indicators	Development of macroprudential indicators	Report by IMF on progress