

**Seventeenth Meeting of the
IMF Committee on Balance of Payments Statistics
Pretoria, October 26–29, 2004**

**Currency Union Technical Expert Group (CUTEG)
Summary Paper**

Prepared by IMF Statistics Department

The views expressed in this paper are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

Currency Union Technical Expert Group

Summary Paper

I. INTRODUCTION

1. The IMF Committee on Balance of Payments Statistics (the Committee) established the Currency Union Technical Expert Group (CUTEG) in December 2003 to advise on balance of payments statistical issues relating to currency unions (CU) and other types of regional economic arrangements. This paper reports to the Committee on the work to date, including the outcome of the first meeting of CUTEG in June 2004. It also briefly outlines the way ahead. Comments from Committee members are welcome.

II. OVERVIEW OF THE WORK TO DATE

2. The IMF chairs the CUTEG, with the ECB as deputy chair. The group that met on June 28-30, 2004 comprised 14 participants, including representatives from all existing currency union central banks as well as other national or regional institutions involved in the compilation of balance of payments statistics at a regional level. To start the work of the group, 20 issues were identified to be discussed, each of them being considered from the point of view of both regional and national balance of payments. See Appendix I for the list of participants, the terms of references, and list of issues.

3. To bring structure to the discussions, CUTEG arranged the issues into three categories, broadly in a hierarchical order. These categories were:

- *Definitional issues.* These issues are central to any discussion of a currency union (CU) balance of payments statement. Three issues were discussed during the June meeting: (1) definition of a CU, (2) treatment of CU central bank (CUCB) as an institutional unit, and (3) definition of domestic and foreign currency.
- *Application of core balance of payments concepts to the context of a CU.* These issues are addressed to determine to what extent the existing methodology must be adapted when shifting from a national to a currency union perspective. Three were discussed: residence, sectorization, and regional allocation.
- *Other issues.* These issues mostly arise from the operational aspects of a CU, such as the definition and allocation of reserves assets, the issuance and circulation of banknotes and the treatment of intra-CU assets and liabilities.

4. For the meeting in June, issues papers (IP) were prepared and discussed, and after the meeting, outcome papers (OP) were drafted. Both the IPs and OPs are posted on the IMF website at <http://www.imf.org/external/np/sta/bop/cuteg.htm>

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5. To facilitate discussion at the Committee meeting, this paper sets out the provisional outcomes reached in June under the three broad category headings set out above. It should be made clear that because CUTEg is developing revised and new methodology, and given the potential implications of the outcomes for existing data compilation in currency unions, the positions reached in June were regarded as provisional. This allows CUTEg members the opportunity to reflect on the views expressed and provisional outcomes reached in June, before firmer positions are reached at the next meeting of CUTEg in December 2004.

6. Although the CUTEg has concentrated initially on CU issues, work covering issues related to economic union and other regional arrangements are to be addressed. At the meeting in June 2004, it became evident that some issues are common for all types of multi-economy arrangements, and so discussion took some account of the implications for economic and other regional arrangements; this discussion benefited from the participation of Eurostat in the meeting.

7. Also, in this connection, beyond CUTEg members, a wider list of contacts (so called "contact group") was established that included (1) regional agencies which may be involved in any kind of related regional statistical work; and (2) central banks of selected countries that are part of wider regional arrangements (which are not currency union) that may have

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(see Appendix II for the list of the contacts and a summary of responses received). It is
sues

December 14 16 meeting. The agreed attribution of tasks is attached as Appendix III. While
cannot be anticipated, if consensus on most of the

Committee some preliminary text might be available for discussion regarding inclusion in the
secretariat will keep Committee members informed of

DEFINITIONAL ISSUES

A.

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¹ The list was intended to be comprehensive. CUTEg would welcome information on any additional agencies that Committee members consider should be contacted.

a starting point for the definition of a currency union.² However, some aspects of this definition needed to be expanded and clarified. In this connection, the group considered that one essential element in a CU is the existence of a “central” and “commonly participated” decision making institution—a monetary authority—that defines the monetary policy objectives. As a consequence, economies with bilateral monetary agreements to use the CU currency as legal tender but which do not participate in the CU decision making body do not qualify as members of the CU. The same applies for unilateral adoption of the CU currency by third party countries (e.g. dollarization, euroization, other “-ization”).

10. While the existence of a policy making body in charge of the common monetary policy appears to be an absolute prerequisite, the group considered that this condition does not imply that the establishment of a CUCB is necessary.

11. Another question raised was the definition of the membership of a currency union. In other words, what does it mean to be part of a decision making body? Some borderline cases might arise, such as the case of a country not participating in the decision making body but formally linked to the CU by a legal agreement. This issue will be further investigated.

B. Treatment of the regional central bank as an independent institution

12. The group has identified two kinds of CU: centralized or decentralized. It should be noted that the *BPM5* refers only to one kind of CU the so -called *centralized* model in that there is a CUCB with national agencies in member countries. In this case, following *BPM5*, the CUCB is not an institutional unit in its own right, and its assets and liabilities are to be allocated to member countries in proportion of their share in the capital of the institution. The creation of the Eurosystem has led to reconsideration of treatment, as it is composed of several central-banking institutions national central banks (CUNCB) and the ECB that have their own assets and liabilities, this is the so-called *decentralized* model.

13. A core topic is whether the CUCB can be regarded as an institutional unit in its own right for both types of currency union. The discussion revealed that, even in the case of centralized CU (BCEAO, BEAC, ECCB), the current *BPM5* methodology is not fully applied, and that in some instances the CUCB is regarded as having its own assets and liabilities. So, there is never a complete pass through of the CUCB assets and liabilities, as recommended in the *BPM5*.

14. The group came to the provisional view that the CUCB, irrespective of the form of the CU, should always be treated in the balance of payments as an institutional unit in its own right, non-resident of CU member countries but a resident of the CU. This provisional view would have implications for the appropriate treatment of national agencies in national data in

² “A common currency area is one in which more than one economy belongs and has a regional central bank with the legal authority to issue the same currency within the area. To belong to this area, the economy must be a member of the regional central bank.” *External Debt Guide*, paragraph 6.12

units for statistical purpose.

Definition of domestic and foreign currency

15.

be problematic following the *SNA 1993*

residence of the issuer. Could the same currency be considered as a domestic and foreign

the CU ? Or should we consider, consistent with the *External Debt Guide*

issued in a CU is always a domestic currency from the point of view of resident member

16. Although sensitive from a methodological point of view, this issue did not give rise to substantial discussions, and there was a general and quick consensus among the participants

cy issued in a CU should always be considered as a domestic currency from the point of view of each member country, even though this currency can be issued by a non resident institution (either another CUNCB or the CUCB). Therefore, the group confirmed the

External Debt Guide, which departs from the strict definition
1993 SNA in the context of banknotes and coin. One consequence is that, from the point of view of an individual country member of a CU, a domestic curren
at the same time, a claim on a non-

IV.

A.

17. Residence is central to any discussion of the compilation of balance of payments statements. Therefore, an issue arises as to what is the eco
it consists of the member economies of the CU. But two further issues were discussed: (1) what is the residence status of the CUCB, and (2) what treatment should be applied for other
he CU?

On these two questions, the group considered that the CUCB, or any other regional or economic union, is resident of the CU/economic union. As a result, the specific notion of institutions.

Following the same reasoning, it was agreed that regional organizations whose
U/economic union, should be

3

economy or common currency area to which the economy belongs.”

, paragraph 6.12.

regarded as non-resident of the CU/economic union. But members agreed to come back at the next CUTEG meeting, following further research, to the treatment of regional organizations the membership of which is predominantly the same as the CU/economic union, but includes one or two non-union members. This was considered to be a borderline case.

20. Another aspect of the residence issue is the case of multi-territory enterprise, for which the center of economic interest is not clearly established and appears to be more closely related to the union as a whole than to any individual country. In this connection, the issue of regional-wide company incorporation for multi-nationals, as under the legal framework of the European Company Status, was discussed. The discussion within the group did not lead to any definite conclusion but the question was raised of the balance of payments treatment of branches of a multi-territory enterprise that have no income and balance sheet accounts of their own, because all accounts are held at the company's headquarters. The members considered it worthwhile to consider whether, in certain circumstances, notional units might be created. The BOPTEG and DITEG work on criteria for the identification of branches is also relevant to this issue.

B. Sector allocation

21. Compared with the previous one, the issue of sectorization did not appear to be as sensitive in the context of a CU. Basically, the issue is: what sector classification should be applied in the balance of payments of a CU to regional organizations that are non-resident of member countries but are considered resident of the CU? Here, it seems that a case-by-case approach should be applied. So far, the only case raised was that of the European Investment Bank (EIB), for which the sector classification could be an issue as the criteria leading to its allocation in general government might need to be reviewed in the light of its monetary activities. If the euro area were to coincide with the European Union, the EIB would become resident of the currency union and, as such, could be involved as a counterpart in monetary policy operations of the Eurosystem and be subject to minimum reserve requirements, which would warrant its inclusion in the banking sector.

22. The group also considered that the sectorization of international (and now, regional) organization should be reviewed (e.g. distinction between monetary and non-monetary organizations). It was agreed to wait on BOPTEG deliberations on reviewing the definition of the various types of international organizations e.g., monetary and non-monetary international financial institutions.

C. Regional allocation

23. The issue of regional allocation of flows and positions is particularly sensitive in the context of a CU. The group agreed that, in principle, financial flows and stocks in CU, economic union and other regional BOP/IIP statements are to be allocated on the creditor/debtor approach. However, members also recognized that collecting data on securities transactions according to the creditor/debtor principle can require a very complex

The transactor principle was rejected -border
cy union, economic
 , and
 authorities, who had expressed a view in favor of the transactor principle for bilateral data.

OTHER ISSUES

Several other issues were identified, most of them being linked to the operational aspects of the functioning of a CU. During the June meeting, three issues were discussed extensively: (1) classification and allocation of reserve assets, (2) issuance and migration of -CU claims and liabilities

A.

25. So far, with regard to the definition and the scope of reserve assets of a CU, the group reached two provisional conclusions:

- 1
 should be the same; in other words, national data, reserve assets should not include any assets not included in reserve assets at the currency union level.
- -CU situation, the scope of r significantly as foreign claims of the monetary authorities that are denominated in the currency of the CU should be excluded from reserve assets in both the CU and

Other issues that remain and ready availability of external assets in the context of a CU. There are two aspects to this issue, depending on the form of the CU :

- ~~partially held~~
 totally by CUNCBs, the institutional setting may in certain circumstances result in some restrictions on the effective control over these assets by the CUNCBs. The group will investigate on how the concepts of control and ready availability might be applied in these circumstances;
- In the centralized model, the reserves assets are controlled by the CUCB. If the CUCB is treated as separate institutional unit, the recommendation of *BPM5* that reserves held by a CUCB be imputed as reserves held by member countries in the CU in proportion to the claims that they have over the CUCB's collective assets, would be dropped. This could raise the question of the relevance (and feasibility of compilation) of producing all the *BPM5* standard components for the financial account and IIP for member countries of a CU. The group will further investigate what could be the consequences on national statistics of member countries.

B. Issuance and migration of banknotes

26. The decision to regard the currency issued in a CU as a domestic currency for member countries, wherever the place of issue, has clarified the treatment of banknotes in the balance of payments. Given this, from a national perspective, the CU banknotes issued by another CU central bank (CUCB or CUNCB) are a domestic currency and an external asset at the same time. If the issuer of the banknote can be identified, as it is the case in the BCEAO, BEAC and the ECCB, in principle the present balance of payments methodology can be applied in the national data (e.g., recording transactions in foreign banknotes). However, when the issuer cannot be identified, such as in the Eurosystem, and in the absence of data on currency in circulation, this methodology cannot be strictly applied and approximations in national data are inevitable.

27. Also, another difficulty arises because of the institutional setting of the Eurosystem where the amounts of banknotes put into circulation by CUNCBs are not the same as the amounts they legally issue. As a result, the issuance and the migration of banknotes create changes of intra-CU claims and liabilities among member countries, some of them being due to balance of payments transactions (internal and external migration of banknotes), and others not (issuance of banknotes to residents). In addition, it is virtually impossible, on practical ground, to make a distinction between these two sources of changes. The group considered that these intra-CU claims and liabilities seem to be more of a technical nature than genuine claims and liabilities. Nonetheless, it was agreed to undertake a more thorough conceptual analysis of these changes in intra-CU claims and liabilities.

C. Intra-currency union claims and liabilities

The group discussed the following types of transactions specific to a CU that give rise to intra-CU claims and liabilities:

- (1) Initial subscription of the CUCB's capital. The provisional view was to record this transaction under Other Investment / Assets / Other/ Monetary Authority in the national data;
- (2) Claims/liabilities resulting from the initial transfer of reserve assets from the CUNCBs to the CUCB. The provisional view was to record these transactions under Other Investments / Assets / Currency and Deposits/ Monetary Authorities in national balance of payments.
- (3) Reallocations of monetary income among member countries and the CUCB. The provisional view was to record these transactions under Current Account / Current Transfers in the national data. The group will consider the issue of the balance of payments treatment of the distribution of profits of the CUCB at its December 2004 meeting;
- (4) Remuneration of intra-CUNCBs balances (including those arising from settlement and clearing arrangements). The provisional view was to record this transaction as income on a gross basis under Current account / investment income / income on other investment in the national data.

(5) Transactions and positions corresponding to the balances of CUNCBs/CUCB resulting from their participation in the CU clearing and settlement arrangements. The provisional view was to record these transactions under Other Investment / Currency and Deposits / Monetary Authorities in the national data.

APPENDIX I

CUTEG — List of Members

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Currency Union Technical Experts Group (CUTEG):

Draft Terms of Reference

1. Mandate and operation of the CUTEG

1.1 Mandate

The establishment of the Currency Union Technical Experts Group (CUTEG) was endorsed by the IMF Committee on Balance of Payments Statistics (the Committee). The main objective of the CUTEG is to produce a draft appendix for the revised Manual that provides conceptual and methodological guidance on issues of specific relevance to the compilation of balance of payments and international investment statistics in currency unions and other regional economic and monetary arrangements. Also, where appropriate, CUTEG may contribute to other parts of the revised Manual. Work will be undertaken within the context of the conceptual framework of the revised balance of payments manual.

1.2 Operational framework

- (a) CUTEG will operate primarily through electronic discussions but will also hold occasional meetings.
- (b) Membership of the CUTEG:
 - (i) Currency union central banks: ECB, ECCB, BEAC, BCEAO
 - (ii) Other relevant regional institutions⁴
 - (iii) Selected IMF member countries
 - (iv) CUTEG will be chaired by the IMF. To draw on the extensive expertise at the ECB, the ECB will provide the deputy chair.
 - (v) The IMF will provide the secretariat.
- (c) Working language of the CUTEG is English only without any translation of documents or interpretation at meetings.

⁴ Without necessarily attending meetings of CUTEG, it is anticipated that some regional institutions will be contacted on specific issues that are relevant to their circumstances.

2. Preparation of a chapter/appendix on currency and monetary unions

2.1 Scope

The CUTEg will provide a draft appendix and any other appropriate contributions to the revised Manual for the meeting of the Committee in 2006 (expected in October). Decisions on the acceptance of CUTEg's recommendations reside with the Committee.

To guide the compilation of balance of payments and international investment position statistics of currency unions and other regional monetary and economic arrangements, and their member states, the CUTEg will produce a list of relevant issues, review the adequacy of existing international methodological guidance, and make recommendations on each issue. The topics covered will include those arising from the creation and the breakout of a currency union. Compilation issues may influence the recommendations but are generally considered out of scope for the draft appendix. CUTEg may contribute to the chapter on the need for balance of payments data. The definition of a currency union in the *External Debt Guide* (page 43 paragraph 6.12) will be used.

The work will focus first on currency unions and later on other regional monetary and economic arrangements. In addition to reviewing existing international guidance, the CUTEg will consider work of the ECB and other regional central banks, its other members, and other material brought to its attention that is considered relevant to meet the objective of the CUTEg. Appendix 1 is a document prepared by the ECB that sets out some issues for the CUTEg to consider.

2.2 Time table

In principle, the CUTEg will be operational between February 2004 and July 2006. As appropriate, in its work CUTEg will take account of the timetable for the revision of the *1993 SNA* and in particular the deadline of April 2006 for recommendations for changes to the *1993 SNA*. However, in the event that additional work on specific methodological issues is required after July 2006, the CUTEg members may be asked by the Committee to reconvene to review those issues.

2.3 Working methods

- (a) Documentation will be disseminated and comments collected primarily through electronic means.
- (b) The CUTEg will provide a written progress report to the Committee in preparation for its 2004 meeting (expected in October).
- (c) The CUTEg will submit a report and first draft appendix, covering currency unions, to the Committee for its meeting in 2005. If agreement among CUTEg members is not reached on the draft appendix, the report will:

- (i) Identify the issues on which agreement was not reached; and
- (ii) set out the alternative positions proposed and their pros and cons.

In the latter case, the CUTEG will seek guidance from the Committee.

- (d) The CUTEG will submit a report and final draft appendix and any other appropriate contributions to the revised Manual to the Committee for its meeting in 2006. The same arrangements apply as above if agreement among CUTEG members is not reached.

- (e) List of topics list of issues for discussion and provide to the Committee for review its 2004

- (f) Priorities: will also take into account the requirements and the time tables of other technical in its work. The Secretariat will coordinate with these bodies.

Consultation

consultation within the international community before formulating final of other technical expert groups created by the Committee are kept informed on a timely basis of its work. To achieve make use of electronic tools as much as possible within the limits of available resources.

- (h) Issues papers: complete coverage of the review items, the documentation will be in the form of according to a standard format as described in Appendix presented by CUTEG members. Papers for discussion by the CUTEG are to be Issues papers will also be sent to the participants of the Committee and to other the issue.

“_____ appendix”: In drafting the appendix the secretariat will draw on the issues papers and the decisions of the CUTEG.

- (j) _____: The draft appendix and other appropriate contributions Committee will be incorporated in the drafts of the new balance of payments

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⁵ subject to review and comment by IMF member countries and other interested parties before final approval by the Committee.

APPENDIX 1: PREPARED BY THE EUROPEAN CENTRAL BANK

1. Economic and, far more, monetary (currency) unions have a strong impact on the content and the economic interpretation of both national and aggregate balance of payments (b.o.p.) and international investment position (i.i.p.), as well as on other macroeconomic statistics.
2. Three different stages can usually be identified in the establishment of economic/monetary unions:
 -

the achievement of area-

to be conducted. This requires the availability of a rather wide range of statistics covering the monetary union as a single economy, in balance of payments and statistics.

6. zation of definitions and concepts, consistent with but exceeding the

appropriate aggregation and consolidation methods have to be undertaken in due time

7. In the context of these steps towards the harmonization of statistics on the balance of t position, consideration may be given to issues

international standards, and are of relevance for the updating of the IMF Balance of Payments Manual, 5th edition.

8. her issues, such as the adaptation of compilation methods in (future) member States and of the appropriate methodological documentation (including Special Data

statistical data, are of relevance for a Compilation Guide.

Statistics for a monetary union, and to some extent also for an economic union, are not -components:

- tions differ: some non-

(for both

- the institutions of the monetary union are residents thereof, although non-ents from a country's perspective even for the country where they are located. In particular the central bank of the monetary union belongs to the

Additionally, where a monetary union does not coincide with a wider economic -making institutions of the whole economic union may be

Considering the experience of existing economic and monet important issue is whether, or not, the decision-

economic union other than the central bank should be considered as residents of the monetary union. The sector classification of specific institutions, e.g. investment banks, should also be discussed.

- The impact on the residence criterion in the b.o.p./i.i.p. should be carefully analysed. For instance, there may be a rationale in granting specific residence status to corporations (namely as residents of the economic or monetary union and of only one specific country pertaining to the union wherever the branches are located). By way of example, the European Union adopted in October 2001 a legal framework on the European Company Status (see the “Societas Europaea”⁷).

The borderline cases for the residence and sector criteria seen from an economic and monetary union should be discussed.

Also clarification is required on the definition of (some kinds of) cross-border transactions and positions, as some elements may differ either between a monetary union and the situation of any individual country, or owing to the financial integration at play in a monetary union, between single countries and countries involved in a monetary union. Main issues relate to (i) portfolio investment, i.e. on how to interpret assets and liabilities both at the national and at the union’s level; and (ii) other investment, on the treatment of flows settled through clearing systems (such as TARGET) and the interpretation of holdings of banknotes by non-residents of the union.

10. An agreement has to be reached within the monetary union about control over and management of foreign exchange reserves. Concepts applicable for the determination of international reserves will depend on which bodies have effective control over the use of foreign exchange reserves.

The possible alteration or limitations of concepts and definitions to a monetary union’s international reserves, in terms of eligible instruments and holding sector (the monetary authorities) should be discussed. Additionally, specification is required as to whether the reserve assets of the monetary union should only be attributed to the union as a whole and, if not, whether clear criteria to assess the share of each member of the union can be defined.

11. Economic and monetary unions have a substantial impact on national statistics.

⁷ OJ L 294, 10.11.2001, p. 1.

The impact on national b.o.p./i.i.p., external debt and international reserves (e.g. recording of currency, inter bank liabilities, portfolio and other investment or reserve) should be discussed.

12. To ensure proper functioning of the monetary union, some ad-
be developed as regards large value payments (e.g. “Target” in the euro area), securities
currency issuance and other financial arrangements between
of the “system of central banks” (SCB), namely the monetary union central bank
MUCB) and the national central banks . Such
imply the appearance of a significant number of newly- -SCB

of the *Balance of Payments Manual* *Compilation Guide*.

The Technical Group should study the treatment applicable to intra SCB transactions and positions arising, where relevant, from:

- (i)
- (ii) *initial transfer of foreign reserves from national central banks to the MUCB;*
- (iii)
- (iv) *the process of reallocation of monetary income among SCB participants;
remuneration of each specific type of intra SCB claim/liability;
distribution of MUCB’s profits and coverage of losses.*

ANNEX 2: STANDARD FRAMEWORK FOR ISSUES PAPERS

- (1) Title/name of item to be reviewed
- (2) Current international standards for the treatment for the relevant issue, including specific references to the volumes and paragraph or page numbers
- (3) Concern regarding the current treatment, if any (including shortcomings)⁸
- (4) Set out possible treatments
- (5) Questions/points for discussion (not more than 1/2page).
- (6) Supplementary information (only if it raises important points) should be allowed by referencing other documentation on issues such as:
 - The extent of application of the current recommendation
 - A summary of apparent problems or difficulties in the practical application of the current recommendation.
- (7) Annex of the most relevant documents (suggested maximum of no more than 6)

⁸ Arguments (in particular for points 3 and 5) could incorporate concrete examples, if possible and relevant. When such examples are available in other documentation, only a reference should be inserted.

**List of Topics for Consideration by the Currency Union Technical Expert Group
(CUTEG)**

MAY 2004

<i>Topic¹</i>	<i>Agency responsible¹</i>	<i>Related Group¹</i>	<i>Priority¹</i>
Terms of Reference and issues paper for research related to economic and currency unions	IMF/ECB		High1
Types of multi-national economic areas			
1. Definition of a currency union	IMF	BOPTEG	High1
2. Definition of an economic union Medium	IMF	BOPTEG	
3. Architecture of a currency union High1	IMF	BOPTEG	
4. Distinction between currency union High1 and regional statements	IMF	BOPTEG	
Residence			
5. Residence in a currency union and residence in a single economy	IMF	BOPTEG	High1
6. Residence and sectorization of regional organization in overlapping regional currency and other economic arrangements	ECB	BOPTEG	High1
7. SPEs and shell and holding companies (units, sectorization, residence, transactions) (for informa-	IMF	BOPTEG, DITEG	High1

tion)

8. Residence of multi-territory enterprises (for information, see issue 5) IMF BOPTEG, DITEG High1

9. Rules for identification of branches High1 IMF DITEG (for information)

Reserve assets

10. Definition and allocation of reserve assets of a currency union ECB BOPTEG High1

Other financial flows and stocks

11. Allocation of financial flows IMF BOPTEG High1

12. Definition of domestic and foreign currency IMF BOPTEG High1

13. Treatment of intra currency union claims and liabilities resulting from the issuance of banknotes IMF/ECB BOPTEG High1

14. Treatment of banknote migrations within and outside a currency union IMF/ECB BOPTEG High2

15. Treatment of transactions and ECB positions arising from intra-currency union claims and liabilities, including currency union settlement and clearing arrangements BOPTEG High1

16. Application of direct investment to government corporations (for information) IMF BOPTEG, DITEG Medium

Current account transactions

17. Reclassification of non financial Eurostat BOPTEG High2

transactions from a national perspective
to a currency union perspective

<i>18. Goods for processing, Re-exports and transit trade (for information)</i>	<i>UK France Hong Kong, SAR</i>	<i>BOPTEG. TFSITS (for information)</i>	<i>High1 High2 High2</i>
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Sector classification

19. Sector classification of regional institutions (e.g. EIB, EUI) in currency union and economic area statistics (will be treated with issue 6)	ECB	BOPTEG	High1
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20. Institutional sector classification (for information)	IMF	BOPTEG	High1
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APPENDIX II

CONTACT GROUP

List of institutions and summary of responses to questionnaires

During 2004, the work of the CUTEG is concentrating on currency union issues. Some statistical issues related to the compilation of regional statements could be discussed in the course of next year. Therefore, in addition to the membership of the CUTEG, which is mainly focused on currency union issues, we have set up a wider list of contacts which includes :

- (1) all regional agencies which may be involved in any kind of related regional statistical work; and
- (2) central banks of selected countries that are part of wider regional arrangements (which are not currency union) that may have implications in compiling their national balance of payments.

We have sent a letter to each of these agencies, and asked them to respond to several questions before the June meeting.

Letter to regional agencies

In the letter from Mrs. Carson, three questions were asked :

- (1) Does your institution compile (or plan to compile) regional balance of payments and/or international investment position (BOP/IIP) statistics ?
- (2) If so, what are the most important conceptual and methodological challenges you face in compiling regional BOP/IIP statistics based on the current version of the *Balance of Payments Manual* ?
- (3) In light of (2) are there issues that you would welcome the updated Balance of Payments manual to address ?

The list of agencies to which letters were sent and whether they have responded is attached

These responses from regional organizations can be divided into three broad categories :

- Five agencies do not nor plan to compile balance of payments (BOP) and international investment position (IIP) statistics: ADB, ALADI, ASEAN, CEMLA, and FLAR. No issue related to the CUTEG was raised by these institutions. CEMLA and ALADI raised several issues which are related to the BOPTTEG and the DITEG (see attachment 2).

- Three agencies do not compile BOP and IIP statistics but have plans to develop such statistics in the future: CEMAC, CARICOM and SADC. These institutions consistently expressed interest in the work undertaken by the CUTEG, but did not raise any issue of interest to the group. CARICOM raised compilation issues related to direct investment and treatment of offshore companies, which fall within the scope of the BOPTTEG and the DITEG.
- The Andean Community appears to be the only one agency which currently compiles regional statistics. However this institution only raised issues related to the BOPTTEG, such as classification of services, distinction between FDI and portfolio investment, classification of foreign debt flows, and adjustments to trade in goods.

Letter to central banks

In the letter from Mrs. Carson, two questions were asked :

(1) What are the conceptual and methodological challenges related to regional arrangements you face in compiling your national BOP/IIP statistics based on the current version of the *Balance of Payments Manual* ?

(2) In light of (1) are there issues that you would welcome the updated Balance of Payments Manual to address ?

This questionnaire was sent to 6 central banks (see list in attachment 1, and whether they have responded).

The Central Bank of Belarus (CBB) was the only one to raise methodological issues of direct interest to the CUTEG, namely: (1) distinction between the concept of residence of the economic union and the concept of residence of a member country, (2) allocation of trade in goods (distinction between country of shipment and country of origin). The CBB also raised two compilation issues: (1) distinction between multilateral settlements and errors and omissions and (2) use of specific data sources for the compilation of a regional statement. They also indicate that they are candidate to participate in the CUTEG group.

The central banks of Botswana, Namibia, South Africa, and Swaziland raised numerous issues that are mainly related to the BOPTTEG and the DITEG: residency of migrant workers, travelers imports of goods, and third party investment (Botswana), adjustment of classification for imports, reinvested earnings compensation of employees, treatment of specific financial flows (Swaziland), residency status of migrant worker (South Africa). Also, the treatment of SACU, which shares custom revenue, appears to be a common concern for these countries.

CONTACT GROUP

List of regional organizations and central banks

REGIONAL ORGANIZATIONS	Responses
Association of Southeast Asian Nations (ASEAN)	YES
Asian Development Bank (ADB)	YES
Union Monétaire Ouest Africaine (UMOA)	NO
Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC)	YES
Economic Community of West African States (ECOWAS)	NO
Southern African Development Community (SADC)	YES
Southern African Customs Union (SACU)	NO
Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)	NO
Banco Centroamericano de Integración Económica (BCIE)	NO
Fondo Latino Americano de Reservas (FLAR)	YES
Mercado Común del Sur (MERCOSUR)	NO
Centro de Estudios Monetarios Latinoamericanos (CEMLA)	YES
Asociación Latinoamericana de Integración (ALADI)	YES
Instituto para la Integración de América Latina y el Caribe (INTAL)	NO
Consejo Monetario Centroamericano (CIMA)	NO
Comunidad Andina	YES
Caribbean Community (CARICOM)	YES

Organization of East Caribbean States (OECS)	YES
Caribbean Development Bank (CDB)	NO
CENTRAL BANKS	Responses
National Bank of Belarus	YES
Central Bank of Russia	NO
Bank of Botswana	YES
Bank of Namibia	YES
Central Bank of Swaziland	YES
South African Reserve Bank	YES

ATTACHMENT 2

LIST OF ISSUES RAISED

AGENCIES	ISSUES RAISED	TEG
CARICOM	The treatment of offshore enterprises is sometimes not consistent with the definition of “resident” as in the <i>BPM5</i> and this treatment may also vary across member states	BOPTEG/DITEG
CEMLA	<p>Need for :</p> <ul style="list-style-type: none"> - an annex for the IMF operation records and more information on the IIP - a more explicit treatment for the insurance industry - a clarification of the treatment of exceptional financing in the analytical presentation - some guidance on the treatment of ECommerce - a more explicit definition of the concept of fair value in the valuation of financial instruments - a more explicit definition of reserve assets and also for foreign direct investment <p>Issues with residence criteria in connection with monetary analysis (deposits made by national non residents of a country with the purpose to be used as money instead of foreign liabilities)</p> <p>Discussion about considering the offshore banks as residents institutions where they are located</p>	<p>BOPTEG</p> <p>BOPTEG</p> <p>BOPTEG</p> <p>BOPTEG</p> <p>BOPTEG</p> <p>BOPTEG/DITEG</p> <p>BOPTEG</p> <p>BOPTEG</p>
ALADI	It would be very helpful if foreign direct investment could be broken down into purchases of assets and new investment, by origin and destination.	BOPTEG/DITEG
Andean Community	<p><i>Foreign trade in services</i>: to open up the classification of services in such a way as to reflect the characteristics of the Andean Community countries</p> <p><i>Foreign direct investment (FDI)</i>: the boundary between direct investment and portfolio investment is not clearly defined; also, the Manual should include the treatment of the special case posed by the Andean Community countries, such as Bolivia (as a HIPC country)</p> <p><i>External debt (public and private)</i>: the flows of foreign debt, in both stock and flow terms, must be disaggregated by source of financing in a format that facilitates their analysis, monitoring, and assessment</p>	<p>BOPTEG</p> <p>BOPTEG/DITEG</p> <p>BOPTEG</p>

	<p><i>Inward remittances</i>: clarify possible sources of information and forms of recording in order to generate optimal data on this subject</p> <p><i>National accounts</i>: pursue the efforts to coordinate all conceptual aspects with 93SNA because there are still discrepancies which affect the IIP due to the flexibility which BPM5 affords in some instances</p> <p><i>Foreign trade in goods</i>: for countries which use customs data for trade statistics, calculation methods should be recommended to bring the countries closer together in their estimates. With regard to smuggling, it might be necessary to use alternative sources and methods that would enable all participants to work in the same direction (for example, use of the supply and use balances from the national accounts)</p>	<p>BOPTEG (compilation issue)</p> <p>BOPTEG</p> <p>BOPTEG (compilation issue)</p>
<p>Central Bank of Belarus</p>	<p>The concept of residence for the Economic Union and the concept of residence for members of the Economic Union should be discussed separately</p> <p>Allocation aspects of trade in goods should be discussed. Aspects related to country of shipment versus country of origin for imports and country shipped to versus country of ultimate destination for export (such concepts are recommended by the current BOP Manual) should be discussed</p> <p>The differentiation of the Multilateral Settlements and Errors and Omissions should be discussed. The main conceptual and methodological definitions and structure of the Multilateral Settlements should be discussed</p> <p>The statistical data sources for the national BOP/IIP statistics should be discussed (for instance, the possibility of using the “mirror” statistics as the main data sources should be discussed)</p>	<p>CUTEG</p> <p>CUTEG</p> <p>CUTEG (compilation issue)</p> <p>CUTEG (compilation issue)</p>
<p>Central Bank of Swaziland</p>	<p><i>Conceptual and methodological challenges</i> : there are notable difference in compilation practices among the countries member of the customs union</p> <p><i>Adjustment for valuation</i> : compilation practices differ from member states for customs revenue that accrue from duties levied on imports from outside SACU.</p> <p><i>Reinvested earnings</i> : reinvested earnings may include huge valuation gains or losses on investment income because Swaziland does not separate the gains accruing from the re-evaluation.</p>	<p>BOPTEG (compilation issue)</p> <p>BOPTEG (compilation issue)</p> <p>BOPTEG (compilation issue)</p>

	<p><i>Pension Funds, Insurance And Life Assurance</i> : discrepancy in the treatment of Swaziland's Pension and Life Assurance Funds between investment abroad, treated as long term assets, and funds received from abroad, treated as short-term investment</p> <p><i>Labour Income</i> : difficulty to estimate expenses derived from labor income</p> <p><i>Recommendation</i> : in view of the issues mentioned above, computation practices should be standardized so that definitions covered can be the same throughout the region.</p>	<p>BOPTEG (compilation issue)</p> <p>BOPTEG (compilation issue)</p> <p>BOPTEG (compilation issue)</p>
South African Reserve Bank	Issue about the residency status of individuals from neighboring countries crossing the border of South Africa to seek job opportunities	BOPTEG
Bank of Botswana	<p><i>Migrant workers</i> : guidance needed about the residence status of migrant workers of Botswana working in South Africa on a permanent basis but returning home at least once a year to have their employment contract renewed</p> <p><i>SACU revenue shares</i> :guidance needed because of inconsistency of treatment</p> <ul style="list-style-type: none"> - between the Bank of Botswana and the Botswana Central Statistics Office with consequences on the comparability of national accounts and the BOP (should payments over or below duties collected on one's country imports be considered as a current transfer or as taxes on imports ?) - between the BLNS countries and South Africa concerning the treatment of assets and liabilities positions incurred within the SACU arrangement <p><i>Travelers' imports of goods</i> : it is suggested that the current treatment of imports of goods related to travel (allocated to travel services) be reconsidered when the import of goods appears to be main objective of the travel</p> <p><i>Third party investment</i> : more explicit guidance needed in the case of a direct investment relationship, when an investment is made by a third party</p>	<p>BOPTEG</p> <p>BOPTEG/CUTEG</p> <p>BOPTEG</p> <p>DITEG</p>
Bank of Namibia	Need to advise on the correct treatment of customs revenue in the SACU arrangement	BOPTEG/CUTEG

APPENDIX III

Summary of tasks for the next CUTEg meeting (December 14-16, 2004)

ISSUES	TASK	ASSIGNMENT
1. Definition of a currency union	1) investigate the situations of dual legal tender arrangements (e.g. in Southern Africa), as well as the adoption of another country's currency under some form of legal agreement (e.g. Belarus and Russia), and report on whether these types of arrangements could be regarded as forms of CU 2) investigate the meaning of being part of a CU decision making body 3) develop a definition of CU for inclusion in the revised Manual	IMF IMF IMF
2. Definition of an economic union	Draft issues paper 2	IMF
3. Architecture of a CU	1) describe the current BOP treatment of national agencies of centralized CU in national data, including the treatment of banknote issuance 2) examine the consequences, and investigate the various options for the appropriate treatment of national agencies in national data, if the CUCB is treated as an institutional unit in a centralized system	BCEAO, BEAC, ECCB BCEAO, BEAC, ECCB, IMF
4. Distinction between CU and regional statements	1) intra/extra issues for portfolio investment 2) intra/extra issues for direct investment.	ECB ECB/Eurostat
5. Residence in a CU and in a CU member country	provide further information on work being undertaken in Europe on the implications for BOP data of the European Company Status	ECB
6. Residence and Sectorization of Regional Institutions in Overlapping	1) draft a definition of economic territory for the currency unions, and a definition of regional organizations	IMF

Regional Currency and Other Economic Arrangements	definition of regional organizations 2) investigate the treatment of regional institutions with non-members of the union (such as the OECS)	ECCB
10. Definition and allocation of reserve assets in a CU	1) concept of control and ready availability of NCB's reserves in a currency union 2) prepare an issues paper on the possible options regarding the relevance of producing all the <i>BPM5</i> standard components for the financial account and IIP for member countries of a currency union	IMF IMF
13-14. Issuance and migration of banknotes in a CU	Examine the reliability of the conceptual guidance for banknotes and intra-currency union claims and liabilities	IMF
15. Intra CU claims and liabilities	1) consider the treatment of capital subscriptions when no claim on the capital of the CUCB arises 2) reflect on the instrument classification of the claims/liabilities resulting from the initial transfer of reserve assets 3) set out the treatment in the national data of the distribution of profits of the CUCB	IMF (consulting with CUTEG members as appropriate) IMF BCEAO, BEAC, ECB, ECCB
17. Reclassification of non financial transactions from a national perspective to a CU perspective	Draft issues paper 17	Eurostat