

**Eighteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington D.C., June 27—July 1, 2005**

Currency Union Technical Expert Group (CUTEG): Summary Paper

**Prepared by the Statistics Department
International Monetary Fund**

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Currency Union Technical Expert Group

Summary Paper

I. INTRODUCTION

1. This paper reports to the Committee on the work to date of the Currency Union Technical Expert Group (CUTEG) established in December 2003 to advise on balance of payments statistical issues relating to currency unions (CU) and other types of regional economic arrangements. Following the discussion at the previous meeting of the Committee in October 2004 on the progress to date, CUTEG met for a second time in December 2004.
2. This paper summarizes and provides background to the outcome papers attached¹ and asks for Committee endorsement of the positions reached by CUTEG. Thereafter, CUTEG will begin the job of drafting the appendices² on currency unions and other regional arrangements for inclusion in the draft revised manual. Also, a paper on CUTEG issues will be prepared for discussion at the January 2006 meeting of the Advisory Expert Group (AEG) for the update of the *1993 System of National Accounts*.

II. OVERVIEW OF THE WORK TO DATE

3. CUTEG held its second meeting in Frankfurt at the European Central Bank on December 14-16, 2004, with two additional participants (one from the Central Bank of Belarus and the other from the West African Monetary Institute). See Appendix I for the list of participants. This meeting and the subsequent electronic discussions resolved the remaining key issues, although some technical recording issues remained that are involving further investigations.
4. As for the previous paper submitted to the BOPCOM, the issues can be broken down into three main categories. These categories are:

¹ The associated issues papers are available at <http://www.imf.org/external/np/sta/bop/cuteg.htm>. The summary paper presented to the meeting of the Committee on October 2004 (BOPCOM-04/34) is available at <http://www.imf.org/external/pubs/ft/bop/2004/04-34.pdf>

² CUTEG considered that appendices rather than chapters should be included in the revised manual.

- Definitional issues. These issues are central to any discussion of a currency union (CU) and economic union (EcUn)³ balance of payments statement.
 - Application of core balance of payments concepts to the context of a CU and EcUn. These issues are addressed to determine to what extent the existing methodology can be adapted to currency union and economic union perspectives.
 - Other issues. These issues mostly arise from the operational aspects of a CU, such as the treatment of intra-CU assets and liabilities and the issuance and circulation of banknotes.
5. Following the meeting in December, outcome papers (OP) were drafted and posted on the IMF website at <http://www.imf.org/external/np/sta/bop/cuteg.htm>. The outcome papers referred to in this paper are attached as Appendix II in the order in which they appear in the text below⁴.

III. DEFINITIONAL ISSUES

6. One major task of the group was to review, and update when applicable, existing definitions pertaining to currency and economic unions. The outcome of CUTEG's work is as follows:

A. Definitions for currency union statistics

7. *CUTEG agreed on the following definition of a currency union (outcome paper 1-1):*

“For statistical purposes, a currency union (CU) is a union to which two or more economies belong and that has a central decision making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union. A CU is established by means of a formal intergovernmental legal agreement (e.g. a Treaty).

To belong to a CU, the economy must be a member of the central decision making body, have a representative that participates in its regular monetary policy decision making process, and be subject to its monetary policy decisions.”

³ At the meeting in December the question arose as to the appropriate acronym to be used to denote an “economic union.” Following electronic discussion among CUTEG members, EcUn was preferred.

⁴ These outcome papers include all those arising from the December meeting, plus four outcome papers from the June 2004 meeting.

8. Following discussions with the Fund's legal department and subsequent electronic discussion among CUTEg members, this definition is slightly modified from that in the outcome paper. There are two key differences between the definition in the outcome paper and the agreed definition above. First, the issues as to whether a currency union exists and whether a particular economy belongs to it, or not, are now covered in separate paragraphs. Second, it was considered that in some circumstances, voting rights might circulate among representatives, and so the reference to voting rights was deleted.

9. *CUTEg agreed on the following definition of currency union territory (outcome paper 6-1):*

Territory of a currency union

“A currency union (CU) territory consists of the geographical territory of the CU economies that comprise the CU, plus the CUCB, where appropriate. Any other regional organizations that comprise the same or a subset of the same economies are included in the CU.”

10. *CUTEg agreed on the following definition of a regional organization (outcome paper 6-1):*

Regional organization

“Regional organizations are a subcategory of international organizations; they can be financial or no financial institutions. They consist of those supranational institutions whose members are governments or monetary authorities of economies that are located in a specific region of the world. Regional organizations, which include Currency Union Central Banks (CUCB), are created for many purposes including supporting, guiding, and even governing aspects of the economic relationships or integration processes among the region's economies. Regional organizations are established by means of a formal intergovernmental legal arrangement (e.g. a Treaty).”

11. *CUTEg agreed on the following definition of a currency union central bank (outcome paper 6-1):*

Currency Union Central Bank

“The Currency Union Central Bank (CUCB) is a financial institution that acts as the common central bank for the member economies of the CU.”

12. It was agreed that the CUCB is nonresident of any CU member economy but resident of the CU.

13. *Do Committee members agree to the wording of the currency union definitions above?*

14. Further, with regard to the *definition of domestic and foreign currency (outcome paper 12)*, CUTEГ reaffirmed that the common currency of the CU is a domestic currency in all member states of the CU.

B. Definitions for economic union statistics

15. *CUTEГ has agreed on the following definition of an economic union (outcome paper 2-1)*⁵ :

“For statistical purposes, an Economic Union (EcUn) is a union to which two or more economies belong. EcUns are established by means of a formal intergovernmental legal agreement among sovereign countries/jurisdictions with the intention of fostering greater economic integration. In an economic union some of the elements associated with a national economic territory are shared among the different countries/jurisdictions. These elements include (1) the free movements of goods and services within the EcUn and a common tax regime for imports from non-EcUn countries (free-trade zone); (2) the free movement of capital within the EcUn; (3) the free movement of (individual and legal) persons within the EcUn. Also in an EcUn, specific regional organizations are created to support the functioning of the EcUn under points (1) to (3). Some form of cooperation/coordination in fiscal and monetary policy usually exists within an EcUn.”

16. *CUTEГ has agreed on the following definition of the economic territory of an economic union (outcome paper 2-1)*:

Economic Union territory

"An economic union (EcUn) territory consists of the geographical territory of the economies that comprise the EcUn, and the regional organizations that comprise the same or a subset of the same economies and are set up to manage the functioning of the EcUn.”

17. *Do Committee members agree to the wording of the definitions on economic unions above?*

IV. APPLICATION OF CORE BALANCE OF PAYMENTS CONCEPTS

18. In developing guidance for the compilation of balance of payments data for a currency union and its member countries, the treatment of the CUCB is central. In *BPM5*, it is recommended that the assets and liabilities of the CUCB be shared among member countries based on their claims on the CUCB. However, the development of a new type of CU in the form of the euro area and the knowledge that at present no CU applies *BPM5*, led

⁵ See also outcome paper 2

CUTEG to develop new guidance for the treatment of the CUCB. Linked to this is the scope and definition of reserve assets in a CU.

A. National agencies in a centralized CU (outcome paper 3-1)

19. CUTEG considers that the CUCB should be considered as an institutional unit in its own right, owning assets and liabilities on its own account and being nonresident of member countries. This represents a major change from the *BPM5* methodology but not from current practices. In addition, the group agreed in principle that the CUCB should be treated the same way in BOP/IIP regardless of the type of system, centralized or decentralized.

20. CUTEG's view raises potential problems in those currency unions in which central bank activity is centralized in the CUCB and members countries do not have national central banks. In particular, under these circumstances, the issue arose as to whether all transactions of the CUCB with member countries should be recorded in the BOP/IIP of these countries? CUTEG took the view that transactions between residents that they settle through accounts at the CUCB should not be recorded in the national BOP/IIP but, as with other economies, transactions with nonresidents should be included. So, for statistical purpose, a notional national agency of the CUCB resident in each member country should be created (if such a national agency does not exist).

21. Further, CUTEG addressed the issue of whether reserve assets should be allocated to BOP/IIP statistics of the member states of centralized CU? As changes in reserve assets of a CUCB for the most part in such arrangements reflect member countries underlying external transactions, the CUTEG is of the view that these changes and positions in reserve assets should continue to be shown in the national balance of payments and IIP statements.

22. In the light of the provisional outcome agreed at the December meeting, CUTEG has started work on, in essence, codifying existing procedures into balance of payments methodology. The details of this are proving difficult to determine, but the framework within which CUTEG is proposing to work is set out in Appendix III. The approach proposed would not bring a fundamental change with current practice.

23. *Do Committee members agree in principle to the recommendations in outcome paper 3-1 and to the framework attached?*

B. Concepts of control and availability of reserve assets in a CU (outcome paper 10-1)

24. The discussion has concentrated mainly on the coverage of reserve assets at the national level. CUTEG confirmed its earlier view that reserves assets shown in the BOP/IIP of CU member countries should only include those assets that are classified as reserve assets at the CU level. In other words, these assets must (1) represent claims on non-resident of the CU and (2) be considered as reserve assets of the CU as a whole. CUTEG considered that the issue of effective control and availability to the monetary authorities of certain assets owned by other residents of the CU e.g., foreign currency assets of the monetary authorities held in

banks resident in the CU, should be decided in the wider discussion of the methodology of reserve assets.

25. More generally, CUTEG agreed that the definition of reserve assets of a CU should be consistent with the one recommended in international methodology.

26. In the context of a decentralized CU, the question arose as to what extent the concept of reserve assets at the national level (which clearly implies that the CUNCBs should have effective control on these assets) applies. It was concluded that, as long as a transfer of ownership to the CUCB does not take place, those foreign assets, which are held by the CUNCBs and can be mobilized by the CU to meet balance of payments needs are to be treated as reserve assets of each individual member country.

27. CUTEG has drafted the attached note (Appendix IV) setting out the reasoning behind its position.

28. *Do Committee members support the recommendations set out in outcome paper 10-1?*

C. Standard components of a national BOP in a CU (outcome paper 10.2)

29. CUTEG considered that the new BOP manual was not the right vehicle to recommend whether a country member of a CU should produce a national BOP statement or not although the “uses of BOP data” chapter could include some discussion about the relevance of some BOP data categories.

30. *Do Committee members support the recommendations set out in outcome paper 10-2?*

D. Geographic allocation of transactions

31. CUTEG reaffirmed its initial view that, in principle, financial flows and stocks in CU, economic union and other regional BOP/IIP statements are to be allocated along the creditor/debtor approach (*outcome paper 11*).

32. In addition, CUTEG agreed that the BOP/IIP of a CU (and EcUn) cannot result from the simple aggregation of national data and, therefore, the compilation of the BOP/IIP statement of a CU (and EcUn) has implications on the collection of data at the national level. In this regard, the issue of geographical allocation of flows, not essential for national data, becomes fundamental for the compilation of a CU BOP/IIP (*outcome paper 11.1*).

33. *Do Committee members have any comments?*

34. Regarding the geographic classification of goods imports and exports from a national and economic/currency union perspective (*outcome paper 17*), CUTEG members considered that the present recommendation in the BOP Compilation Guide to use the country of consignment concept should be reconsidered given the 1998 revision in the UN's International Trade Statistics Manual. Further, CUTEG agreed that trade data for CUs

(without customs borders) and EcUns (with customs borders) can be discussed separately in the revised manual.

35. *Do Committee members have views on the recommendations set out in outcome paper 17?*

E. OTHER ISSUES

Intra-Currency Union Claims and liabilities

Initial transfer of reserve assets (outcome paper 15-1)

36. The CUTEG has agreed that the claims arising from the initial transfer of reserve assets to the CUCB are to be classified as *other investment*, either under *currency and deposits* or under *other assets*. If a CU member does not fully meet its obligations to transfer reserve assets to the CUCB, the CUCB may report a claim on the member country. Such claims should be classified in the national data as *other investment / monetary authorities/other liabilities*. However these classification issues are not yet fully resolved as CUTEG members agreed to review the reasoning behind their present classification approaches. Indeed, this issue will be influenced by the discussion on the classification of reserve assets in a centralized CU (see IV. A above).

Subscription to the capital of the CUCB (outcome paper 15-2)

37. During the December meeting, different views were expressed on the treatment of these transactions, mainly reflecting differences in the institutional arrangement among CUs. Also, the existence of an actual claim or not of a member country on the CUCB in the event of that country leaving the CU differs among CUs. Member countries in two CUCBs classify the subscription as *other investment*, consistent with *BPM5*; countries in another CU classify such transactions as *direct investment*; and in another CU, these transactions are classified as *portfolio investments*. In all CU profits are classified as income on the underlying financial asset to which member countries' subscriptions are attributed.

38. Given this situation, the CUTEG agreed to pursue on this discussion, although a consensus seems to emerge on classifying this transaction under "Other investment, other assets", in line with the current *BPM5* recommendation (paragraph 422).

Other Intra-Currency Union Claims and liabilities issues (outcome paper 15)

39. On the issues of the classification of transactions and positions resulting from (1) participation in CU clearing and settlement arrangements (outcome paper 15, paragraph 1), and (2) the remuneration of intra-CU NCBs balances, there is nothing further to report to that set out in outcome paper 15, which was reported to the October 2004 meeting of the Committee.

Multilateral settlements (outcome paper 16)

40. CUTEG agreed that the revised *BPM5* should provide a clearer definition of multilateral settlements and, more generally, some analytical background on how this issue of multilateral settlements applies to the different types of regional statements (currency union, economic union, bilateral statement). CUTEG members are still working on this issue.

Issuance and migration of banknotes within a currency union (outcome paper 13/14)

41. This is primarily a national compilation issue, as it is almost impossible to distinguish between the two sources of changes in intra CU claims and liabilities—change in domestic circulation of banknotes (not to be recorded in the BOP) and migration of banknotes (to be recorded)—unless there is distinctive markings on the banknotes that can allow the issuer to be identified. CUTEG is to continue the discussion on what text is appropriate for inclusion in the revised manual on this issue.

APPENDIX I

List of participants at the December 2004 meeting

International Monetary Fund	Mr. Robert Heath (<i>Chairman</i>)
European Central Bank	Mr. Jean–Marc Israel (<i>Chairman</i>)
International Monetary Fund	Mr. René Fiévet (<i>Secretariat</i>) Mr. Samuele Rosa (<i>Secretariat</i>)
Banque Centrale des Etats de l’Afrique de l’Ouest	Mme. Khady Beye Camara
Banque des États de l’Afrique Centrale	M. Nazaire Fotso Ndefo
Czech National Bank	Mr. Rudolf Olsovsky
European Central Bank	Mr. Jean Galand Mr. Jorge Manuel Diz Dias Mr. Carlos Sánchez Muñoz Ms. Carmen Picon
Eastern Caribbean Central Bank	Mr. Colin Cannonier
EUROSTAT	Mr. Markus Van-Wersch
National Bank of Belarus	Ms. Olga Antropova
Saudi Arabia Monetary Agency	Dr. Gebreen Al-Gebreen
Ufficio Italiano dei Cambi	Mr. Luca Buldorini
West African Monetary Institute	Mr. J.H. Tei Kitcher

APPENDIX II

Outcome papers attached to the summary

Outcome paper # 1-1 : Definition of a Currency Union

Outcome paper # 6-1 : Definition of (1) a Currency Union territory, (2) Regional Organization, and (3) Regional Central Bank

Outcome paper # 12 : Definition of Domestic and Foreign Currency

Outcome paper # 2 : Distinction between a CU and other economic unions

Outcome paper # 2-1 : Definition of Economic Unions

Outcome paper # 3-1 : Treatment of national agencies in a centralized CU

Outcome paper # 10-1 : Concepts of control and availability of reserves in a CU

Outcome paper # 10-2 : Standard components of a national BOP in a CU, in particular treatment of reserve assets

Outcome paper # 11 : Allocation of financial flows

Outcome paper # 11-1 : Intra/Extra issues at CU level

Outcome paper # 17 : Geographic classification of goods imports and exports from a national and economic/currency union perspective

Outcome paper # 15-1 : Classification of the claims/liabilities resulting from the initial transfer of reserve assets to the CUCB

Outcome paper # 15-2 : Intra CU claims and liabilities arising from subscription to the CUCB

Outcome paper # 15 : Intra CU claims and liabilities

Outcome paper # 16 : Conceptual treatment of multilateral settlements

Outcome paper # 13-14 : Issuance and migration of banknotes in a CU

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 1-1

JANUARY 24, 2005

(1) Topic: **Definition of a Currency Union**

(2) Issues – see CUTEG Issues Paper #1, Outcome Paper # 1, and Draft Follow-up Paper # 1

(3) Outcome of the discussion:

The following definition was agreed:

“For statistical purposes, a currency union (CU) is a union to which two or more economies belong and that has a regional central decision making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union. A CU is established by means of a [formal] intergovernmental legal agreement (e.g. a Treaty). To belong to a CU, the economy must be a member of the central decision making body, participate in its regular monetary policy decision making process, and be subject to its monetary policy decisions. Participation in the monetary policy decision making process includes representation and voting rights in the central decision making body.”

Some CUTEG participants stressed that for a CU to exist there must be an element of nonreversibility. It was agreed that the reference to the CU as being established by means of a formal intergovernmental legal agreement is in itself an indication of the level of commitment. (The agreement itself can address the procedures for both joining and leaving the CU.)

The need for the word “formal” will be reviewed by the Fund. Some CUTEG members considered it unnecessary given that a legal agreement is formal.

(4) Rejected Alternatives:

There was agreement not to make reference to the common foreign exchange policy as an essential element to the definition of a CU for statistical purposes. (Some CUTEG members indicated that the notion of foreign exchange policy can include the foreign exchange control policy, which may or may not be the same among CU members.)

It was agreed that the decision of the CUCB to share seignorage with a nonmember economy does not define membership. It remains essential to the notion of membership to the CU to participate as full member to the CU decision making body.

(5) Actions

None.

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 6-1

JANUARY 24, 2005

(1) Topic: Definition of (1) a Currency Union Territory, (2) Regional Organization, and (3) Regional Central Bank

(2) Issues – see CUTEG Draft Follow-up Paper #6
<http://www.imf.org/external/np/sta/bop/pdf/fp6.pdf>

(3) Outcome of the discussion:

CU territory

The following definition was agreed:

“A currency union (CU) territory consists of the geographical territory of the CU economies that comprise the CU, plus the CUCB, where appropriate. Any other regional organizations that comprise the same or a subset of the same economies are included in the CU.”

On the definition of a CU territory, there was agreement that if a regional organization has same membership as the CU (or a subset of it) it should be treated as resident of the CU. There was also agreement that if a regional organization includes all CU members and one or more nonmembers it should be treated as nonresident of the CU.

Regional organization

The following definitions were agreed:

“Regional organizations are a subcategory of international organizations; they can be financial or nonfinancial institutions. They consist of those supranational institutions whose members are governments or monetary authorities of economies that are located in a specific region of the world. Regional organizations, which include Currency Union Central Banks (CUCB), are created for many purposes including supporting, guiding, and even governing aspects of the economic relationships or integration processes among the region’s economies. Regional organizations are established by means of a [formal] intergovernmental legal arrangement (e.g. a Treaty).”

For regional organizations, the need for the word “formal” will be reviewed by the Fund. Some CUTEG members considered it unnecessary given that a legal agreement is formal. Further, CUTEG recognized that further investigation should be given to the use of the word “institution” as opposed to “organization.”

Currency Union Central Bank

“The Currency Union Central Bank (CUCB) is a financial institution that acts as the common central bank for the member economies of the CU.”

In principle it was agreed that the CUCB is nonresident of any CU member economy but resident of the CU.

(4) Rejected Alternatives:

None.

(5) Actions

None.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 12

JULY 23, 2004

(1) Topic: Definition of Domestic and Foreign Currency

(2) Issues – see CUTEG Issues Paper #12

(3) Outcome of the discussion:

1. In defining foreign and domestic currency, the group considered that the term “currency” should be understood in the broad sense, that is not only banknotes and coins, but all means of payment issued by financial institutions in an economic territory. The treatment of banknotes in a currency union is covered in Issues 13/14.
2. There was consensus that the currency issued in a currency union 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 of this country (either another CUNCB or the CUCB). Therefore, the group confirmed the definition used by the *External Debt Guide*, which departs from the strict definition provided by the *1993 SNA* in the context of banknotes and coin.
3. In consequence, it was accepted that in a currency union, a domestic currency can be a claim on a non-resident. This is the solution adopted by the currency unions of African countries (BCEAO, BEAC, ECCB), where the banknotes can be identified by country of origin. When banknotes issued by another country of the currency union are withdrawn from circulation by the national agency but have not yet been repatriated to the country of origin, they are considered as external assets of the country. In the Eurosystem, where the banknotes cannot be identified by issuer, no distinction can be made between those which are domestic claims and those which are foreign claims.

(4) Rejected Alternatives:

For currency issued in a currency union, the group decided not to follow a strict application of the *1993 SNA* guidance provided in the context of banknotes and coin: that is determining domestic currency or a foreign currency on the basis of the residence of the issuer.

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 2

JANUARY 24, 2005

(1) Topic: **Distinction between a currency union and other economic unions**

(2) Issues – see CUTEG Issues Paper # 2

<http://www.imf.org/external/np/sta/bop/pdf/cuteg2.pdf>

(3) Outcome of the discussion:

42. The definition of Economic Union (EU) provided in the issues paper # 2 was agreed in principle, but the wording needs to be tightened in light of the other definitions of EUs provided to CUTEG by its members. It was agreed, after discussion, that while the definition of EU should not refer to a common monetary and fiscal policy, it can refer to the existence of cooperation/coordination mechanisms in these fields.

43. CUTEG agreed on applying the same principles to the concept of residence of an EU as used to define residence in a CU.

44. CUTEG agreed that a table listing the various issues that require specific treatment when compiling data for CUs or EUs (e.g., definition of monetary authorities, domestic/foreign status of the common currency, residence etc), and indicates the extent to which they apply to one or other type of union, offers a good framework to illustrate the distinction between compiling a CU and EU BOP statement.

45. CUTEG agreed that because of the vital importance of ensuring a consistent approach among CU and EU members when compiling national contributions to CU and EU aggregates, the new BOP manual should make some reference to the importance of documentation (metadata) on the methodology applied in each economy.

46. CUTEG members also agreed that reference should be made in the new BOP manual to the relevance in an EU BOP statement of the current account, the capital account, and the direct investment data, while noting that other data categories are less relevant and meaningful at an EU level.

47. CUTEG also asked for consideration to be given to a different acronym from EU for Economic Union.

(4) Rejected Alternatives:

None.

(5) Actions

Review and revise the draft definition of economic union provided.

CURRENCY UNION TECHNICAL EXPERT GROUP

OUTCOME PAPER (CUTEG) # 2-1

MAY 31, 2005

DEFINITION OF ECONOMIC UNIONS

I. Introduction

At the December 2004 meeting in Frankfurt, CUTEG members discussed a draft definition of an economic union (EcUn⁶) for statistical purposes. While the definition was agreed in principle, the following conclusions were reached:

While the definition of an EcUn should not include a reference to a common monetary and fiscal policy, it can refer to the existence of cooperation/coordination mechanism in these fields.

Apply the same principles to the concept of residence of an EcUn as used to define residence in a CU.

The table provided by Eurostat offers a good framework to use in the new BOP manual to illustrate the distinction between a CU and an EcUn.

The new BOP manual should make some reference to the importance of proper metadata and documentation on the methodology applied in compiling national contribution to CU and EcUn aggregates.

The new BOP manual should also suggest that the relevant segments of the BOP statement for an EcUn are the current account, the capital account, and direct investment, whereas the other categories are less relevant and meaningful at an EcUn level. It is worth noting that the value for analysis of a 'fully fledged' b.o.p. for an EcUn is limited and may be prone to misinterpretation. Where some users of EcUn statistics may still want to have these data, possibly as a contribution to flow-of-funds data, they should be aware that the b.o.p. aggregate could be the result of divergent financial markets trends in the economies included in the EcUn. In contrast to a CU, an EcUn would lack a common monetary policy and would have limited financial integration. Developments in the BOP financial account or international investment position (with the exception of foreign direct investment) may therefore be hard to interpret.

⁶ Following the December 2004 meeting, it was agreed to use the acronym EcUn for Economic Unions.

In light of the above conclusions the following definition of an EcUn is proposed for inclusion in the new BOP Manual.

“For statistical purposes, an Economic Union (EcUn) is a union to which two or more economies belong. EcUns are established by means of a formal intergovernmental legal agreement among sovereign countries/jurisdictions with the intention of fostering greater economic integration. In an economic union some of the elements associated with a national economic territory are shared among the different countries/jurisdictions. These elements include (1) the free movements of goods and services within the EcUn and a common tax regime for imports from non-EcUn countries (free-trade zone); (2) the free movement of capital within the EcUn; (3) the free movement of (individual and legal) persons within the EcUn. Also in an EcUn, specific regional organizations are created to support the functioning of the EcUn under points (1) to (3). Some form of cooperation/coordination in fiscal and monetary policy usually exists within an EcUn.”

Economic Union territory

“An economic union (EcUn) territory consists of the geographical territory of the economies that comprise the EcUn, and the regional organizations that comprise the same or a subset of the same economies and are set up to manage the functioning of the EcUn.”

Data issues

“For the purpose of macroeconomic coordination/cooperation, EcUns formulate specific data requirements including balance of payments statistics, which help assess aspects such as the degree of integration of the EcUn internal market or share of trade with countries outside the EcUn. In these instances, since the EcUn balance of payments data are compiled through the aggregation or consolidation⁷ of national contributions, it is important that the EcUn member countries strictly follow international agreed standards and provide adequate metadata describing their methodology.

⁷ There are two approaches for compiling an EcUn balance of payments. The aggregation approach consists of adding up net national transactions to obtain the EcUn net transactions with economies outside the EcUn (because on a net basis intra-EcUn transactions cancel-out). The consolidated approach consists of aggregating gross transaction of the member economies with partner economies outside the EcUn area. This approach allows for an EcUn’s balance of payments statement to be compiled on a gross (credits and debits) basis. Also, specific statistical techniques might be employed to aggregate national data, such as modelling to deal with asymmetries assessed within intra-EcUn data.

At the EcUn level, the current account, the capital account, and direct investment are relevant for monitoring economic performance of the EcUn. However, as different currencies continue to coexist, and the respective monetary authorities set their monetary policy objectives in terms of developments of monetary variables, interest rates, and exchange rates, the portfolio and other investments categories are usually less meaningful at the EcUn level.”

The table below sets out various factors and indicates how they may affect the need for a balance of payments statement. The table clarifies that the factors specific to compiling a balance of payments statement for an EcUn are a subset of those relevant to a CU.

Table 1 Methodological issues relevant for different types of regional cooperation

Issue	Customs Union	Economic Union	Currency Union	Reference
1 Monetary authority	n.a.	n.a.	X	Par... of the Manual
2 Domestic/foreign status of the common currency	n.a.	n.a.	X	<i>Etc.</i>
3 Allocation of intra-CU claims among the CU's central banks	n.a.	n.a.	X	
4 Reserve assets	n.a.	n.a. ¹	X	
5 Definition of regional cooperation	n.a.	X	X	
6 Residency	n.a.	X	X	
7 Debtor / creditor versus transactor principle	n.a.	X	X	
8 Consignment principle <i>Etc.</i>	X	X	X	

¹ The manual could explain that the Reserve assets of a union other than a CU are the sum total of the national Reserves (without consolidation) and that this total has no specific meaning at the union level.

References

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

1993 SNA (paras. 14.34).

BPM5 (para 90).

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

CUTEG issue paper # 1: “Definition of Currency Union”,
<http://www.imf.org/external/np/sta/bop/pdf/cuteg1.pdf>

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

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 3-1

JANUARY 24, 2005

(1) Topic: **Treatment of national agencies in a centralized CU**

(2) Issues – see CUTEG Issues Paper #3 and Draft Follow-up Paper 3

(3) Outcome of the discussion:

1. The group confirmed its provisional view that the CUCB of a centralized CU should be considered as an institutional unit in its own rights, with its own assets and liabilities. This decision is partly grounded on the papers provided by CUTEG members (BEAC, BCEAO, and ECCB) which give evidence that the current *BPM5* methodology is not fully applied in existing centralized CU and, consequently, the CUCB is already considered, at least in part, as an independent unit non-resident of member countries.

2. The group agreed in principle that the CUCB should be treated the same way in BOP/IIP regardless of the type of system, centralized or decentralized.

3. CUTEG was predisposed to the view that changes in reserve assets should continue to be shown in national statistics, based on underlying economic transactions as is currently the case.

4. Provisionally, CUTEG supported the creation, for statistical purpose, of a notional national agency of the CUCB resident in each member country. This way, transactions between the CUCB national agency and the residents in each country would not be recorded in the national b.o.p. This approach would not bring a fundamental change with current practice, as transactions of residents with the CUCB would not be recorded in the BOP/IIP of member countries. Such net changes in the position of a country vis à vis the CUCB would be strictly equivalent to the concept of “imputed reserves” used by some CUCBs. However, it was agreed that still more work and consultation remain necessary.

(4) Rejected Alternatives:

None.

(5) Actions

CUTEG to undertake further work and consultation on 3 and 4 above.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 10-1

JANUARY 24, 2005

(1) Topic: **Concepts of control and availability of reserves in a CU**

(2) Issues – see CUTEG Issues Paper #10 and Draft Follow-up Paper#10

(3) Recommendations:

1. CUTEG confirmed its provisional view that reserves assets shown in BOP/IIP of CU member countries should only include those assets that are classified as reserve assets at the CU level. However, one representative was concerned that the financing of intra-CU imbalances could still be relevant in the context of specific CUs and, therefore, some countries may consider that the holding of foreign currency assets in banks resident in other countries of the CU could be eligible for reserves even when these holdings are not considered as such at the CU level. The other members of CUTEG did not support this view. One representative considered that this issue relates to the definition and coverage of reserve assets – i.e. whether deposits or other assets in foreign currency held in resident banks (in a country or within a CU) should be considered eligible. CUTEG decided that a paper justifying the majority view be prepared to support further consultation before any final decision is taken.

2. The group agreed on adopting a broad definition of monetary authorities in a CU, including national monetary authorities.

3. The group agreed that the definition of reserve assets of a CU should be consistent with the one recommended in international methodology. Consistent with international methodology, borderline cases on the classification of reserve assets should be determined collectively between the CUCB and all national monetary authorities that are part of the CU decision making body.

4. The group agreed that the issue of effective control and availability on certain assets (for example, foreign assets of the monetary authorities in banks resident in the CU) should be decided in the wider discussion of methodology of reserve assets.

(4) Rejected Alternatives:

None.

(5) Actions

CUTEG members agreed that a paper be drafted justifying the view that reserves assets shown in BOP/IIP of CU member countries should only include those assets that are classified as reserve assets at the CU level.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 10-2

JANUARY 24, 2005

(1) Topic: **Standard components of a national BOP in a CU, in particular treatment of reserve assets**

(2) Issues – see CUTEG Issues Paper #10-1

(3) Recommendations:

1. CUTEG agreed that the new BOP manual is not the right vehicle to recommend whether a country member of a CU should produce a national BOP statement or not. However, in a “uses of BOP data” chapter there should be some discussion about the relevance of some BOP data categories, in particular portfolio investment, financial derivatives, other investment, and reserve assets, as financial integration within a CU makes progress.

2. CUTEG agreed that if reserve assets are transferred from national central banks to the CUCB, they are no longer considered as owned by the NCB (although a claim on the CUCB is created).

3. The group agreed that all foreign assets at the national level that meet the criteria of reserve assets at the CU level should also be recognized as reserve assets at the national level.

(4) Rejected Alternatives:

None.

(5) Actions

None.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 11

JULY 23, 2004

(1) Topic: **Allocation of Financial Flows**

(2) Issues – see CUTEG Issues Paper #11

(3) Recommendations:

48. 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 data collection system, and might not be cost effective when there are limited cross-border transactions in securities.

49. The group noted the comments received from the US authorities regarding the US preference for the transactor principle for allocating bilateral financial flows—geographical (regional) breakdown of a single economy's balance of payments. It was agreed that Fund staff should contact the US authorities on this matter.

(4) Rejected Alternatives:

From a conceptual viewpoint, the transactor approach for currency union, economic union and other regional BOP/IIP statements.

(5) Actions before the next meeting of CUTEG

- Fund staff to contact the US authorities over use of the transactor principle (Fund staff).

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 11-1

JANUARY 24, 2005

(1) Topic: **Intra/Extra issues at CU level**

(2) Issues – see CUTEG Draft Follow-up Paper #11

(3) Recommendations:

50. CUTEG agreed that the BOP/IIP of a CU (and EU) cannot result from the simple aggregation of national data and, therefore, the compilation of the BOP/IIP statement of a CU (and EU) has implications on the collection of data at the national level. In this regard, the issue of geographical allocation of flows, not essential for national data, becomes fundamental for the compilation of a CU BOP/IIP. In particular, the distinction between intra and extra CU transaction/positions is needed.

51. CUTEG agreed that the data categories in the BOP statement for which issues arise should be identified in the revised BOP manual and that there is a need for methodological harmonization among countries member of a CU. In some instances, such as trade, different conceptual approaches are needed compared with national bop data and these should be discussed in the revised BOP manual. Only practical CU and EU compilation issues should be dealt with in the revised BOP Compilation Guide.

52. The group noted the importance of metadata to know the different methodological approaches taken by countries and pointed to the necessity to arrange meetings or to share information to achieve greater consistency between CU member countries.

(4) Rejected Alternatives:

None.

(5) Actions

None.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 17

JANUARY 24, 2005

(1) Topic: **Geographic classification of goods imports and exports from a national and economic/currency union perspective**

(2) Issues – see CUTEG Issues Paper #17

(3) Recommendations:

53. CUTEG members agreed that the present recommendation in the *BOP Compilation Guide* to use the country of consignment concept should be reconsidered given the 1998 revision in the UN's *International Trade Statistics Manual*.

54. CUTEG noted that circumstances can differ among CUs in compiling reliable trade data. Some CUs can rely on customs data, with country of consignment data as supplementary. In others, such as the euro area, data on country of origin, the country of last known destination and the country of consignment are required.

55. CUTEG agreed that trade data for CUs (without customs borders) and EUs (with customs borders) can be considered separately in the revised BOP manual.

(4) Rejected Alternatives:

None.

(5) Actions

None.

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 15-1

JANUARY 24, 2005

(1) Topic: Classification of the Claims/Liabilities Resulting from the Initial Transfer of Reserve Assets to the CUCB

(2) Issues – see CUTEG Draft Follow-up Paper #15
<http://www.imf.org/external/np/sta/bop/pdf/fp15.pdf>

(3) Outcome of the discussion:

56. It was agreed that the claims arising from the initial transfer of reserve assets to the CUCB be classified as *other investment*, probably under *other assets*. The exact instrument classification would depend upon the nature of the claim.

57. It was agreed that if a CU member does not fully meet its obligations to transfer reserve assets to the CUCB, the CUCB may report a claim on the member country. Such claims should be classified in the national data as *other investment / monetary authorities/other liabilities*.

58. There was interest in separately identifying transactions arising from the transfer of reserves separately from transactions arising from the subscription to the CUCB capital.

(4) Rejected Alternatives:

None.

(5) Actions

The CUCBs agreed to review the reasoning behind their present classification approaches.

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 15-2

JANUARY 24, 2005

(1) Topic: Intra Currency Union Claims and Liabilities Arising from Subscription to the Currency Union Central Bank

(2) Issues – see CUTEG Draft Follow-up Paper #15-2
<http://www.imf.org/external/np/sta/bop/pdf/fp15-2.pdf>

(3) Outcome of the discussion:

59. Member countries in the different CUCBs classify the capital subscriptions to the CUCB differently, partly resulting from the differences in the institutional arrangement among CUs. Also, the existence of an actual claim or not of a member country on the CUCB in the event of that country leaving the CU differs among CUs.

60. Member countries in two CUCBs classify the subscription as *other investment*, consistent with *BPM5*; countries in another CU classify such transactions as *direct investment*; and in another CU, these transactions are classified as *portfolio investments*.

61. While CUTEG lent towards classifying the subscription as equity, it was agreed that the CUCBs would undertake further research to discover the reasoning behind their present classification policy.

62. The question of how to accrue income on the subscription was discussed, along with the question of how to record reinvested earnings if the subscription is classified as direct investment.

63. In all CUCBs profits are classified as income on the underlying financial asset to which member countries' subscriptions are attributed.

(4) Rejected Alternatives

None.

(5) Actions

The CUCBs agreed to review the reasoning behind their present classification approaches.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 15

JULY 23, 2004

(1) Topic: **Intra Currency Union Claims and Liabilities**

(2) Issues – see CUTEG Issues Paper #15

(3) Recommendations:

64. The group agreed that the transactions and positions corresponding to the balances of CU NCBs/CU CB resulting from their participation in the CU clearing and settlement arrangements should be reported in the national BOP/IIP data under Other Investment / Currency and Deposits / Monetary Authorities. These transactions can be recorded on a net basis, in line with the underlying economic reality. The balance at the end of the period, if any, should be recorded as either an asset or a liability.

65. The group agreed that the participation in the CU CB's capital be recorded in the BOP/IIP under Other Investment / Assets / Other/ Monetary Authority in the national data. In some currency unions there is no claim on the capital of the CU CB in the event of a member economy leaving the union, although even in these cases the subscription gives the participating country the right to receive a proportion of the CUCB's profits. This circumstance will be further considered. *BPM5* (para 422) only makes reference to the notion of "capital subscription to international organizations", and recommends recording it under other investment (claim) without entering into the issue of whether such subscription actually gives rise to a claim. The group considered that the updated manual should clarify this circumstance.

66. The group provisionally agreed that claims/liabilities resulting from the initial transfer of reserve assets from the CU NCBs to the CUCB should be recorded in national balance of payments under Other Investments / Assets / Currency and Deposits/ Monetary Authorities. Fund staff will reflect on the instrument classification before the next meeting of the CUTEG. The group did not regard remuneration according to a predetermined interest rate as an essential prerequisite for the proposed classification.

67. The group agreed that reallocations of monetary income among member countries and the CUCB to be recorded in the national data as Current Account / Current Transfers. However, the group will consider the issue of the BOP treatment of the distribution of profits of the CUCB at its December 2004 meeting.

68. The group agreed that the remuneration of intra-CU NCBs balances (including those arising from settlement and clearing arrangements) be recorded as income on a gross basis under Current account / investment income / income on other investment in the national data.

Remuneration of balances related to the settlement and clearing arrangements, can be recorded on a net basis, reflecting the underlying economic reality.

(4) Rejected Alternatives:

None.

(5) Actions before the next meeting of CUTEG

- Fund staff to consider the treatment of capital subscriptions when no claim on the capital of the CUCB arises, consulting with CUTEG members as appropriate (Fund staff).
- Fund staff will reflect on the instrument classification of the claims/liabilities resulting from the initial transfer of reserve assets (Fund staff).

BCEAO, BEAC, ECB, and ECCB to set out the treatment in the national data of the distribution of profits of the CUCB (BCEAO, BEAC, ECB, and ECCB).

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 16

JANUARY 24, 2005

(1) Topic: **Conceptual treatment of multilateral settlements**

(2) Issues – see CUTEG Issues Paper #16

(3) Recommendations:

69. CUTEG noted the analytical significance that can arise from multilateral settlement data, hence the interest in its separate identification. However, although different in concept, these settlements cannot easily be distinguished from errors and omissions. This issue is inherent to the compilation any regional, or bilateral, BOP statement which describes transactions with a subset of the Rest of the World.

70. CUTEG agreed that the revised *BPM5* should provide a clearer definition of multilateral settlements and, more generally, some analytical background on how this issue of multilateral settlements applies to the different types of regional statements (currency union, economic union, bilateral statement).

71. CUTEG confirmed that while a BOP statement vis-à-vis the rest of the world, whether for a country or for a CU, should in concept balance, any statement vis-à-vis a subset of nonresidents will not.

72. CUTEG agreed that this issue raises compilation matters and that more information on this issue should be provided in the next version of the BOP Compilation Guide.

(4) Rejected Alternatives:

None.

(5) Actions

None.

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 13-14

JULY 23, 2004

(1) Topic: **Issuance and Migration of Banknotes in a Currency Union**

(2) Issues – see CUTEG Issues Paper #13-14

(3) Outcome of the discussion:

1. Given the definition of a domestic currency in a currency union (CU) adopted by the group in the discussion of Issue 12, 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. The group considered that from a methodological viewpoint this is clear. However, in the absence of data on currency in circulation in any member country, special problems can arise for national data in a currency union.
2. If the issuer of the banknote can be identified, as it is the case in the BCEAO, BEAC and the ECCB, in principle the methodology can be applied in the national data. Although in these currency unions one major practical problem is that these banknotes are sorted by country of origin (and therefore can possibly be recorded as external assets) only when they are withdrawn from circulation by the central bank.
3. When the issuer cannot be identified, such as in the Eurosystem, and in the absence of data on currency in circulation, approximations in national data are inevitable. Also, in the Eurosystem, the issuance and the migration of banknotes creates changes of intra-currency union claims and liabilities among member countries, as the amounts put into circulation by NCBs are not the same as the amounts NCBs legally issue. Some changes in intra-currency union claims and liabilities are due to balance of payments transactions (internal and external migration of banknotes), and others are not (issuance of banknotes to residents). On practical grounds, it is virtually impossible to make a distinction between these two sources of change and so the Eurosystem has decided that these changes should not be recorded in the balance of payments as they are as likely as not to create errors and omissions.
4. The group considered that these intra currency union 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 changes in intra-currency union claims and liabilities. IMF staff will examine the reliability of the conceptual guidance for the treatment of intra-currency union claims and liabilities on the assumption that all the information, including the currency in circulation in each member country, are available.

(4) Rejected Alternatives:

None.

(5) Actions before the next meeting of CUTEG

- Fund staff to examine the reliability of the conceptual guidance for banknotes and intra-currency union claims and liabilities on the assumption that all the information, including the currency in circulation in each member country, are available (Fund staff).

APPENDIX III

Treatment of national agencies in a centralized Currency Union

In a centralized CU transactions among resident units of the same member country are not to be recorded in the national balance of payments, even if settled through accounts at the CUCB. Rather, domestic transactions settled through the CUCB should be attributed to the branch or agency that the CUCB has set up in the country, or to a notional resident institutional unit, which should be established for statistical purposes if no such branch or agency exists in the country.

Transactions with nonresidents, including those with residents of countries that are also members of the currency union, and settled through the CUCB, are to be recorded in the balance of payments according to the nature of the transaction, with the counterentry in the relevant financing item attributed by the CUCB to these countries e.g., reserve assets. Transactions of residents with the CUCB, where the CUCB is the bilateral counterparty, should be recorded in the balance of payments according to the nature of the transaction e.g., subscription of capital to the CUCB.

For the position data, assets and liabilities of the CUCB that are attributed to member countries typically include

- initial subscription to the capital and accumulated reserves of the CUCB;
- reserve assets (such as foreign currencies);
- other foreign assets not classified as reserves;
- loans subscribed by the monetary authorities of member countries, such as use of Fund credit.

In attributing assets and liabilities, the CUCB's net position to a member country should equal the net claim or net liability of the member countries' residents on the CUCB. Gross assets and liabilities of member countries at end-period should reflect the position at the beginning of the period together with any transactions and other flows recorded during the period between residents and non-residents (including the CUCB).

Any assets held, but not owned, by the CUCB on behalf of member countries, such as gold, reserve position at the Fund and SDRs, are assets of the member country and are not included in the net position with the CUCB. Transactions and positions of the CUCB on own account that do not reflect transactions with member countries should not be attributed to member countries.

In compiling CU data, compilers will need to ensure that assets and liabilities of the CUCB are not double counted.

APPENDIX IV

Treatment of reserve assets at national level in a country member of a currency union

1. Introduction

1. At the December 2004 meeting, members of the CUTEG confirmed their provisional view of June 2004 that reserve assets shown in balance of payments/International Investment Position of currency union (CU) member countries (i.e., national data) should only include those assets that can be classified as reserve assets at the CU level. However, some justification was considered necessary with respect to the rationale underlying this position, which in essence, is a codification of present practice in currency unions.

2. Present practice

(a) Centralized system

2. In a centralized system—such as the West African Economic and Monetary Union (WAEMU) or the Central African Economic and Monetary Community (CAEMC)—reserve assets are entirely in the hands of the CU Central Bank (CUCB).

3. At its December 2004 meeting, CUTEG confirmed its provisional view that the CUCB of a centralized CU should be considered as an institutional unit in its own right with its own assets and liabilities. However, CUTEG was predisposed to the view that changes in reserve assets should continue to be shown in national statistics based on the underlying economic transactions, as is currently the case. The details of this approach are to be worked out, but all foreign exchange transactions with non-residents of the CU conducted by residents (essentially the commercial banks and the general government) through the national agency—which would include transactions of national branches and agencies—of the CUCB have a direct impact on the level of reserve assets of the CUCB. Thus changes in the level of the reserve assets of the CUCB can be allocated to the CU member countries on the basis of these foreign exchange transactions. A separate paper is being prepared on this matter.

4. With regard to transactions among member states of the CU, these are cleared through the CUCB and do not affect the level of reserve assets of the CU nor of the member countries when they are carried out in the common currency. Should they be carried out in foreign currencies—an unlikely event in WAEMU or CAEMC where the common currency is sole legal tender for transactions between residents of the CU—they do not affect the level of reserve assets in the CU, but change the respective shares of the member states involved; the information necessary for the allocation of the corresponding flows to the countries involved should be available to the CUCB. Holdings/shipments in/by a country of banknotes issued in another country of the CU have an impact on *external* assets of the countries involved but no impact on *reserve* assets, neither at the CU level, nor at the national level, as they are not denominated in foreign currency (see also paragraphs 9 & 10).

(b) Decentralized system

5. In the euro area, the inclusion in national reserve assets of only those assets that are classified as reserve assets at the CU level stems from the following elements:

- According to Article 30 of the Statute of the European System of Central Banks (ESCB), the pooling by the ECB of the reserve assets transferred was carried out in the form of an outright transfer of ownership. Consequently, the Statistics Committee of the ESCB concluded that *these assets, being pooled under Article 30 of the Statute of the ESCB, should be considered to be under the direct and effective control of the ECB and regarded as reserve assets of the ECB.*

- In addition, an ECB Recommendation for a Council Regulation based on Article 30.4 of the Statute of the ESCB was to establish the manner in which the Governing Council of the ECB may effect further calls of foreign reserves. These external assets, which would in principle be retained by the NCBs, may be regarded as contributing to preserving market confidence in the Eurosystem as a whole, since they could be mobilized in an efficient manner. Consequently, it was concluded that *as long as a transfer of ownership does not take place, external assets retained by the NCBs in relation to Article 30.4 are under their direct and effective control and should preferably be treated as reserve assets of each individual NCB; only in the event that these further calls of foreign reserves are carried out in exactly the same form as the initial transfer of EUR 50,000 million required by Article 30 (i.e. by means of a pooling arrangement that implies crediting each participating NCB with a claim equivalent to its additional contribution) or at the time at which the potential call would be executed, should these assets be considered as reserves of the ECB (assets under the direct and effective control of the ECB).*

- Finally, according to Article 31.3 of the Statute of the ESCB, all other operations in foreign reserve assets remaining with the national central banks shall, above certain limit, be subject to further approval by the ECB in order to ensure consistency with the exchange rate and monetary policies of the Community. Nevertheless, owing to the fact that the guidelines under this article confine the request for prior approval by the ECB to foreign exchange activity above a given threshold, with regard to the timing of the transaction and the manner in which the transaction is to be performed, and that the ECB may only request that a transaction be delayed *in very exceptional circumstances*, the ECB's Statistics Committee considered it preferable for *the NCBs to still retain direct and effective control over their remaining assets, which they could use to perform transactions to fulfill their obligations towards international organizations in accordance with Article 23 of the Statute of the ESCB. Thus these assets would be considered as reserve assets of each participating NCB.*

6. From the above elements, it follows that only reserve assets considered as such at CU level can be classified as reserve assets at national level in order for them to be eligible for a further call from the ECB; that is to say, in particular, that to qualify as reserve assets at

national level, external assets must represent claims on non-residents of the CU. The ECB consulted the IMF in this respect, and the IMF agreed on the proposed treatment (letter to Jean-Marc Israël signed by Neil Patterson, dated 25 September 1998).

3. Key considerations

7. Thus the evidence of currency unions is that reserve assets as a concept is only relevant at the level of the CU as a whole, but that member countries can continue to record reserve assets in their national balance of payments data.

8. In a currency union, exchange rate issues are only relevant at the CU level and the means by which a CU member country adjusts to a balance of payments imbalance is different from that of a country not in a CU. The simple fact is that if the new *Balance of Payments Manual* recommended that foreign currency claims on other member countries could count as reserve assets, this would run against present practice and what the Fund has accepted in the past.

9. Further, there is a danger of double-counting reserve assets in a CU. For instance, if one country has a claim on the central bank of a fellow CU member in foreign currency, the second central bank could itself have a corresponding foreign currency claim—thus overstating reserves at the CU level. Within CUs, there is a preoccupation to avoid confusing users by different definitions of reserve assets at national and at CU level.

10. With regard to the issue of the currency of denomination of reserve assets, or more precisely to the issue whether or not it is possible to have reserve assets denominated in domestic currency, paragraph 66 of *International Reserves and Foreign Currency Liquidity—Guidelines for a Data Template* clearly states: “If the authorities are to use the assets for the financing of payments imbalances and to support the exchange rate, *the reserve assets must be foreign currency assets*”.

11. The booklet entitled “Statistical Treatment of the Eurosystem’s International Reserves” (ECB, October 2000) concurs with this position: “A key question relates to whether or not reserve assets should necessarily be foreign currency-denominated assets. This might have implied that certain euro-denominated assets could be treated as reserve assets of the euro area if the euro were to be considered a reserve currency. However, once it is acknowledged that the aim of reserve assets is to have available sufficient liquid resources for foreign exchange policy operations, this consideration may not be maintained, since euro-denominated assets, regardless of the issuer, could not be used to support the euro. As a result: (1) *reserve assets of EMU should be denominated in foreign currency*, i.e. euro-denominated claims on either EMU or non-EMU residents should not be considered as reserve assets of the euro area. In line with this reasoning, it is also understood that: (2) *from a national perspective*, eurodenominated claims on both other EMU residents and non-EMU residents should not be considered as reserve assets.”

12. Finally, there was consensus among the CUTEG that the currency issued in a currency union 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 of this country (either another CU National Central Bank or the CUCB). Therefore, the group confirmed the definition used by the *External Debt Guide*. In this respect, the ECB's document mentioned above reads as follows: "The legal foundations of the euro⁸ determine that the euro should be regarded as domestic currency in all the participating Member States and could not be considered as both a domestic and a foreign currency from a national viewpoint."

⁸ Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, OJ L 139, 11.5.98.