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Reserve Related Liabilities: Presentation in the International Accounts Framework

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EXECUTIVE SUMMARY

The idea of including a reserve-related liabilities (RRL) concept in the updated IMF Balance of Payments Manual was among the issues raised in the paper Revision of BPM5: Issues on International Reserves (BOPCOM 05/70) that was presented to IMF Committee on Balance of Payments Statistics (BOPCOM) in June 2005.

The issue was included in the agenda of the Reserve Assets Technical Expert Group (RESTEG), which agreed on its coverage and its inclusion in the new Manual. RESTEG preference is to include RRL in the standard components of the balance of payments (BOP) and international investment position (IIP).

However, given the significance of changing the standard components, this paper sets out for the Committee the pros and cons of including RRL in the standard components, addresses the ideas of including RRL below-the-line in the analytic presentation, and as a memorandum or supplementary table covering position data, only.

Against this background, this paper asks the Committee the following questions:

- *Which possibility does the Committee prefer?*
 - *as positions only in a memorandum or supplementary table (with residents and nonresidents);*
 - *in the standard components as transactions and positions with nonresidents,*
 - *if so, with transactions also in the analytical presentation.*
- *Are there other possibilities that require consideration?*
- *What are the Committee views on the inclusion of Appendix III as a memorandum or supplementary table in the new Manual?*

Reserve Related Liabilities: Presentation in the International Accounts Framework¹

I. BACKGROUND

1. The fifth edition of the IMF's *Balance of Payments Manual (BPM5)* does not discuss the concept of monetary authorities' reserve-related liabilities (RRL). Nonetheless, data on RRL are among those required for Fund surveillance and for program purposes; the idea of foreign currency drains was introduced in the *Reserves Template*; and users outside of the Fund have expressed interest in the RRL concept.²
2. One of the main purposes of introducing a RRL concept into the new *Manual* would be to address the concern that data on gross reserve assets alone, without identifying the counterpart liabilities, can provide a misleading indicator of the strength of the reserve position. For instance, if the proceeds of foreign currency borrowing by the monetary authorities are included in reserve assets, rather than a strengthening of the reserves position, the net reserve position is unchanged. In other words, as stated in the IMF's *Balance of Payments Textbook*, a concept of reserves that includes selected liabilities gives a more comprehensive view of balance of payments financing. Also, an RRL concept serves as an indicator of liquidity pressure on the reserves.
3. Given these considerations, an issues paper (*Reserve Related Liabilities, RESTEG issues paper # 9*) was prepared by the IMF, and discussed by the reserve asset technical expert Group (RESTEG), on whether the concept of monetary authorities' RRL should be introduced into the next *Balance of Payments Manual (Manual)* and, if so, how it could be defined. The issues and outcome papers are attached as Appendices IV and V, respectively.

II. RESTEG VIEWS

4. RESTEG supported including RRL in the new *Manual*. RESTEG members' preference was to present RRL in the standard components of the balance of payments (BOP) and international investment position (IIP), rather than as a memorandum item.³ RESTEG noted that such a category might cause an overlap with exceptional financing in the analytic presentation and this needed to be considered. Further they agreed:

¹ This paper was primarily drafted by Mr. Hidetoshi Takeda.

² For example, Mr. Richard Erb, a former Deputy Managing Director of the IMF, wrote in *Central Banking* (Volume XIV, No. 3) that "for those interested in the overall strength and weakness of a country's official reserve position the analysis must include an examination of the liability side as well as the asset side."

³ This preference was the recommendation that arose from the meeting in May. Five RESTEG members that were unable to attend provided comments before the meeting. One favored inclusion as a standard component, three as a memorandum item, and one did not like the idea of introducing a new RRL category at all. One member of the Committee member commented and favored a standard component.

- RRL should only include liabilities to nonresidents, not least for the consistency within the balance of payments framework. Some stated that liabilities to residents could be provided via different presentation, i.e., as a memorandum or supplementary item.
- RRL should be foreign currency liabilities only. The issue of hedging through derivatives was raised and it was noted that some proposals on monitoring in the IIP foreign currency hedging through derivatives is being prepared for Committee discussion.
- Regarding sectoral coverage, the majority preferred the same institutional coverage as reserve assets. However, the importance of monitoring government foreign currency external debt was emphasized and again it was noted that some proposals for providing detail on foreign currency borrowing more generally in the IIP is being prepared for Committee discussion.

5. In addition, RESTEG members had differing views on whether total RRL or only short-term RRL should be included in RRL. The consensus was broadly in favor of presenting the total, with a remaining short-term (one-year) maturity split.⁴

6. Subsequent to the RESTEG meeting, a short section on RRL was included in the draft Chapter 5, reflecting the RESTEG outcome. However, given the significance of changing the standard components of BOP/IIP, it was considered that any change should be brought before the Committee with the pros and cons of including RRL in the standard components carefully discussed. Also, the option of including RRL in the analytic presentation needed to be addressed, given that the RESTEG has not discussed treating RRL as an analytic presentation. This paper addresses these issues.

III. ISSUES TO BE CONSIDERED IN DECIDING ON THE PRESENTATION OF RRL

7. Despite the analytic benefits, three concerns have been raised about the RRL concept:
- The possible imprecision in identifying RRL flows,
 - How to avoid possible duplications with exceptional financing, and
 - The coverage of liabilities to residents.

⁴ There is no proposal before the Committee to incorporate remaining maturity into the balance of payments transactions data, so this recommendation on remaining maturity would relate to position data only.

A. The Possible Imprecision in Identifying RRL Flows

8. The section on reserves in Chapter 5 of the draft *Manual* provides the definition of RRL: “Reserve-related liabilities are foreign currency liabilities associated with reserve assets of the monetary authorities, i.e., liabilities in foreign currency that can be regarded as direct claims by nonresidents on the reserve assets of a country.”

9. It can be argued that RRL are difficult to identify. For instance, are government foreign currency liabilities reserve-related liabilities? What would be the classification if the borrowing is swapped into domestic currency—while being recorded as foreign currency debt, the monetary authority would de facto have a domestic currency obligation.⁵

10. The definition focuses on the direct claims on reserve assets, and it might be considered difficult to determine whether government, as opposed to central bank, borrowing represents a direct claim on reserves. On the other hand, such are the limited sources of foreign currency revenue/assets available to most governments to service foreign currency borrowing, particularly if they face a balance of payments need, it should be possible to establish whether the borrowing is RRL or not in most instances. Also, the institutional and legal circumstances would need to be taken into consideration; that is, whether there are legal or institutional constraints on the use of reserves to repay government foreign currency borrowing. The approach to foreign currency debt swapped into domestic currency would need to be addressed.

11. Also, when securities are liquid, as with other securities, the nonresident/resident split of owners might be hard to identify and, given the comparison with the transactions in reserves, analytically misleading if there are significant measurement errors. However, monetary authorities should have the capability to discover whether residents or nonresidents hold their security liabilities, and indeed it is in their own interest to know this information.

12. Finally, it is argued that any imprecision of RRL data would impact the quality of other items because, items incorrectly classified as part of RRL should be included elsewhere in the accounts, and vice versa.

B. RRL and Exceptional Financing

13. *BPM5* includes exceptional financing transactions (EFT) (but not positions) in an analytic presentation. This information is included in the Selected Supplementary Information, rather than standard components (paragraphs 451, 526-527 of *BPM5*).⁶ EFT

⁵ This is provided that the counterparty to the derivatives contract does not fail to deliver foreign currency at maturity.

⁶ *External Debt Statistics: Guide for Compilers and Users (Debt Guide)* defines EFT, “As an alternative to—or in conjunction with—the use of reserve assets, IMF credit and loans, liabilities constituting foreign authorities’

includes such items as loans and bond issues by the government or central bank (or by other sectors on behalf of the authorities) to meet balance of payments needs. In the analytic presentation, the drawing of such a loan or the issue of such a bond is recorded *below-the-line* as a credit entry under exceptional financing. These borrowings are also part of RRL. Also, other elements of EFT such as accumulation of arrears and rescheduling/refinancing of debt could duplicate with RRL. Thus, the introduction of an RRL concept would need to take account of EFT.

C. Liabilities to Residents

14. As noted above, monitoring liquidity pressures on reserves is an important reason to compile reserve-related liabilities data. This is the thinking behind Section II of the *Reserves Template*. However, Section II covers both liabilities to residents and nonresidents, as pressures can arise from resident claims on the reserves as well as nonresident claims. Further, while IMF country teams exercise flexibility in defining reserve liabilities for program design and performance criteria, the guidance is to include foreign currency liabilities to both residents and nonresidents. But including liabilities to residents is inconsistent with the international accounts framework.

IV. POSSIBLE PRESENTATIONS

15. There are various possibilities for including RRL in the new *Manual*. Three are presented ahead: in the analytical presentation (transactions with nonresidents, only); as standard components (transactions and positions, with nonresidents); and as a memorandum or supplementary table of positions only (with residents and nonresidents).

A. Analytic Presentation

16. In considering the possibilities for inclusion in the standard components (main accounts of BOP/IIP) and in the analytic presentation, it is most appropriate to start with the analytic presentation. This is because if RRL are not to be included in the analytic presentation then the case for them being included in the standard components is undermined, as explained ahead.

17. In IMF statistical publications, such as *International Financial Statistics (IFS)* and *Balance of Payments Yearbook (BOPSY)* the analytic presentation of the BOP is given primary importance. The analytic presentation makes a clear distinction between *above-the-line* transactions deemed to be autonomous and contributing to or resulting in an overall payments deficit or surplus, and *below-the-line* transactions considered to be accommodating

reserves, to deal with payments imbalance, exceptional financing denotes any other arrangements made by the authorities of an economy to finance balance of payments needs” (Appendix III, *Glossary of External Debt Terms*).

or financing the deficit or surplus. While such a distinction between groups of transactions involves a degree of judgment, it nonetheless presents a measure of deficit/surplus and indicates financing needs and/or policy adjustments required to correct an imbalance.

18. The items below the line are reserves assets, use of Fund credit and loans, and exceptional financing. To allow a comparison to be made with transactions in reserve assets, there appears a case for including RRL in the analytic presentation. As noted above, an increase in reserves could be interpreted as accommodating an *above-the-line* surplus when in reality it is the counterentry to official borrowing.

19. However, there are two drawbacks. First, the analytical presentation only covers transactions, and not positions. So including RRL only in the analytical presentation would mean excluding RRLs from position data, with the benefits that would bring in terms of comparing positions in reserve assets and RRL.⁷ As noted ahead, RRL may be best analyzed in a position statement.

20. Second, as noted in paragraph 13 there is an overlap with the EFT concept. Table 1 below provides an analytic presentation that incorporates RRL below-the-line, taking account of the overlap with EFT. The table also includes a short-term, long term split because of the relevance of maturity to the RRL concept.

21. As can be seen, the concept of exceptional financing remains but partly as a sub-item of RRL. Other exceptional financing includes items such as intergovernmental grants, debt forgiveness, and other types of debt reorganization (although transactions related to the latter could be RRL). For those economies that have no exceptional financing nor IMF credit and loans, “only” transactions in reserve assets and other reserve-related liabilities would be reported.

⁷ While not a direct comparison with RRL, if the foreign currency/domestic currency split proposed in BOPCOM paper 06/06 is adopted, comparison could be made between the level of reserves assets and foreign currency borrowing of the authorities from nonresidents.

Table 1. Reserves and Related Items

Reserve assets
Reserve-related liabilities
– Use of Fund credit and loans
Long-term ⁸
Short-term
– Exceptional financing
Long-term
Short-term
– Other reserve-related liabilities
Long-term
Short-term
Other exceptional financing

B. Standard Components of BOP/IIP

22. As the one of the main reasons for including RRL in the new *Manual* is to allow a comparison to be made with reserve assets, if RRL are included in standard presentation then it would seem self-evident that they be included in analytic presentation. So a decision to exclude them from the analytic presentation would undermine the arguments for including RRL in the standard components. But the reverse does not necessarily hold—it could be argued that RRL is an analytic construct and that given the imprecision described in paragraphs 9-11, it is appropriate to include RRL only in the analytic presentation.

23. However, RESTEG considered that there are strong arguments for including RRL in the standard components as well as the analytic presentation. First, RRL would be clustered together in the main presentation of the balance of payments, allowing direct comparison with reserve assets. Second, as noted above, the analytic presentation only covers transactions, and the arguments for introducing RRL appear to be stronger for positions than transactions. Third, the *Balance of Payments Manual* presents the standard components of the BOP/IIP as guidance for all countries, contributing to comparability of data, most important for BOP/IIP analysis. *BPM5* states that, “the standard components should ... be reported to the IMF as completely and accurately as possible” (paragraph 145).

24. In addition to the imprecision concern described above, an argument against including RRL in the standard components is that it undermines the coherence of the remaining categories. For instance, if a monetary authority borrows in foreign currency and this is included in a separate category, then not all monetary authority borrowing in that instrument from nonresidents is clustered together. Comparability across countries might also be affected.

⁸ The maturity breakdown is based on original maturity.

25. A draft presentation of the standard components of the balance of payments and IIP including RRL is provided as Appendix 1.⁹ Appendix 2 provides a detailed breakdown of the RRL transactions data with nonresidents that would be needed to compile the data for the analytic presentation of RRL. This table is similar in concept to the Selected Supplementary Information table in *BPM5* (page 49). Only the data on exceptional financing transactions would be additionally needed if RRL is a standard component. Each economy can present this table as a supplement to the balance of payments statement.

C. Position Data Only

26. It could be considered that an RRL concept is best analyzed in a position statement as both of the reasons set out in paragraph 2 above would be largely met without the need for transactions data. Appendix 3 provides a memorandum/supplementary table for position data that incorporates liabilities to residents, and is a bridge between RRL data and that in the *Reserves Template*.

27. Compared with the *Reserves Template*, the table distinguishes RRL to nonresidents, covers all foreign currency liabilities and assets of the central government and monetary authorities, and identifies repo loans. In other words, it provides a comprehensive view of the authorities' position in foreign currency, bringing together information that allows the calculation of net positions in foreign currency assets and liabilities with residents and nonresidents.

28. Compared with the proposals set out in BOPCOM 06/06 to provide a domestic/foreign currency split of the IIP, the presentation in Appendix 3 provides additional information on the nature of the foreign currency liabilities, whether they are RRL or not, and a more comprehensive view of the foreign currency position of the monetary authorities and central government¹⁰ by including resident as well as nonresident positions.

29. The relevance of data on residents arises not least from the possibility that the monetary authorities may borrow foreign exchange from residents, boosting reserves without any counterpart nonresident liability being recorded. Activity through repos might be one such borrowing avenue. If the proposal in BOPCOM 06/06 on a foreign currency split is adopted then a reduction in residents' foreign currency assets as a consequence of the borrowing by the monetary authorities would be identified.

⁹ The assumption is that the transactions and position data would be on an original maturity basis, and that in the position data the long-term data would be additionally split between over one year and up to one year in the position data, as set out in paper on the IIP (BOPCOM 06/06), so permitting short-term remaining maturity to be observed.

¹⁰ Appendix III is consistent with the work being undertaken on the public debt template, in particular with the inclusion of resident as well as nonresident positions on foreign currency, and the breakdowns by instruments, maturity and currency. Nonetheless to support reconciliation with government finance statistics, a sub-sector split between central government and the central bank could be included.

30. The table in Appendix III is of particular relevance to economies that do not complete a *Reserves Template*. If RRL are included as a standard component, the sub-detail under item 2 would be covered in the IIP (although repo loans would need to be identified).

V. CONCLUSION

31. From various sources, the idea of including a concept of RRL in the new *Manual* was raised. Various possibilities have been discussed since the last meeting of the Committee. The attractiveness of including RRL in the standard components as recommended by RESTEG would be to allow comparison between related types of assets and liabilities in both the transactions and position data.

32. However, the issues raised are complex and in terms of the international accounts framework, new. As the work has progressed, it has become increasingly clear that it is not possible to define reserve-related liabilities with the same clarity as reserves. Further, the exclusion of liabilities to residents can be seen as an important lacuna. Primarily for these reasons, and because of the significance of changing the standard components the issue has been brought before the Committee.

33. Within the IMF, the debate has shifted towards a preference for position data, and the introduction in the new *Manual* of the position table in Appendix III, which meets the analytical needs by drawing on, but without the constraint of, the international accounts framework.

VI. QUESTIONS TO THE COMMITTEE

- *Which possibility does the Committee prefer?*
 - *as positions only in a memorandum or supplementary table (with residents and nonresidents);*
 - *in the standard components as transactions and positions with nonresidents,*
 - *if so, with transactions also in the analytical presentation.*
- *Are there other possibilities that require consideration?*
- *What are the Committee views on the inclusion of Appendix III as a memorandum or supplementary table in the new Manual?*

Appendix I: Draft Standard Components with RRL

Balance of Payments¹¹

B. Financial account

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4. Other Investment

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5. Reserve-related Liabilities

5.1 Debt securities

5.1.1 Bonds and notes

5.1.2 Money market instruments

5.2. Loans

5.2.1 Use of Fund credit and loans from the Fund

5.2.1.1 Long-term

5.2.1.2 Short-term

5.2.2. Other long-term

5.2.3 Other short-term

5.3 Currency and deposits

5.3.1 Long-term

5.3.2 Short-term

5.4 Trade Credits

5.4.1 Long-term

5.4.2 Short-term

5.5. Other liabilities

5.5.1 Long-term

5.5.1.1 SDR allocation

5.5.1.2 Other long-term

5.5.2 Short-term

¹¹ The same approach would be adopted for IIP presentation, except that a remaining maturity split would be proposed consistent with the approach in BOPCOM paper 06/06.

Appendix II: Transactions Data

1. Reserve-related liabilities (RRL)
 - 1.1. Use of Fund credit and Loans
 - 1.1.1. Long-term
 - 1.1.2. Short-term
 - 1.2. Exceptional financing transactions in RRL
 - 1.2.1. Long-term
 - 1.2.1.1. Debt securities
 - 1.2.1.2. Loans
 - 1.2.1.2.1. Repo loans¹²
 - 1.2.1.2.2. Other loans
 - 1.2.1.3. Other foreign currency liabilities to nonresidents*
 - 1.2.2. Short-term
 - 1.2.2.1. Debt securities
 - 1.2.2.2. Loans
 - 1.2.2.2.1. Repo loans
 - 1.2.2.2.2. Other loans
 - 1.2.2.3 Other foreign currency liabilities to nonresidents*
 - 1.3. Other RRL
 - 1.3.1. Long-term
 - 1.3.1.1. Debt securities
 - 1.3.1.2. Deposits
 - 1.3.1.3. Loans
 - 1.3.1.3.1. Repo loans
 - 1.3.1.3.2. Other loans
 - 1.3.1.4. Other foreign currency liabilities to nonresidents
 - 1.3.1.4.1. SDR allocation
 - 1.3.1.4.2. Other long-term foreign currency liabilities *
 - 1.3.2. Short-term
 - 1.3.2.1. Debt securities
 - 1.3.2.2. Deposits
 - 1.3.2.3. Loans
 - 1.3.2.3.1. Repo loans
 - 1.3.2.3.2. Other loans
 - 1.3.2.4. Other foreign currency liabilities to nonresidents*
-

* Specify the standard component in which the item is included

¹² The inclusion of repo loans depends on the decision on the treatment of repo transactions within reserves. If the security stays on balance sheet and the loan is recorded as a liability separate identification of the loan would provide information on the scale of this activity.

Appendix III: Memorandum/Supplementary Items: Position Data

1. Reserve assets (Section I.A of *Reserve Template*)
2. Reserve-related liabilities to nonresidents (RRL)^{13 14}
 - 2.1. Long-term
 - 2.1.1. Use of Fund credit and loans
 - 2.1.2. Debt securities
 - 2.1.3. Deposits
 - 2.1.4. Loans
 - 2.1.4.1. Repo loans¹⁵
 - 2.1.4.2. Other loans
 - 2.1.5. Other foreign currency liabilities to nonresidents
 - 2.1.5.1. SDR allocation
 - 2.1.5.2. Other long-term foreign currency liabilities
 - 2.2. Short-term
 - 2.2.1. Use of Fund credit and loans
 - 2.2.2. Debt securities
 - 2.2.3. Deposits
 - 2.2.4. Loans
 - 2.2.4.1. Repo loans
 - 2.2.4.2. Other loans
 - 2.2.5. Other foreign currency liabilities to nonresidents
 - 2.2.5.2. Other short-term foreign currency liabilities
3. Reserve assets (1) less short-term RRL to nonresidents (2.2)
4. Other foreign currency assets¹⁶
 - 4.1. Long-term
 - 4.2.1. Debt securities

¹³ For both reserve-related liabilities and for foreign currency liabilities to residents, the treatment of liabilities that have been swapped into domestic currency would need to be resolved.

¹⁴ Data for reserve-related liabilities, other foreign currency assets and liabilities are to be presented on a remaining maturity basis.

¹⁵ The inclusion of repo loans depends on the decision on the treatment of repo transactions within reserves. If the security stays on balance sheet and the loan is recorded as a liability separate identification of the loan would provide information on the scale of this activity.

¹⁶ Other foreign currency assets and liabilities would include claims and liabilities of the monetary authorities and central government to both residents and nonresidents, other those covered in reserve assets and reserve related liabilities to nonresidents. This approach for other foreign currency assets and liabilities is consistent with the approach in Sections 1.B and 2 of the Reserves Template. To support reconciliation with government finance statistics, a sub-sector split between central government and the central bank could be included.

- 4.2.2. Deposits
 - 4.2.3. Loans
 - 4.2.3.1 Repo loans
 - 4.2.3.2. Other loans
 - 4.2.4. Other foreign currency assets
 - 4.2. Short-term
 - 4.2.1. Debt securities
 - 4.2.2 Deposits
 - 4.2.3 Loans
 - 4.2.3.1. Repo loans
 - 4.2.3.2. Other loans
 - 4.2.4. Other foreign currency liabilities¹⁷
 - 5. Other foreign currency liabilities
 - 5.2.1. Long-term
 - 5.2.1.1. Debt securities
 - 5.2.1.2. Deposits
 - 5.2.1.3. Loans
 - 5.2.1.3.1. Repo loans
 - 5.2.1.3.2. Other loans
 - 5.2.1.4. Other foreign currency liabilities
 - 5.2.2. Short-term
 - 5.2.2.1. Debt securities
 - 5.2.2.2. Deposits
 - 5.2.2.3. Loans
 - 5.2.2.3.1. Repo loans
 - 5.2.2.3.2. Other loans
 - 5.2.2.4. Other foreign currency liabilities
 - 6. Foreign currency resources: 1 + 4
 - 7. Foreign currency liabilities: 2 + 5
 - 8. Net foreign currency resources: 6 – 7
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¹⁷ This item would include any net financial derivative positions of the central government and of the monetary authorities not included in reserve assets.

APPENDIX IV:

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 9

RESERVE RELATED LIABILITIES

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The views expressed in this paper are those of the author(s) only, and the presence of it, or of links to it, on the IMF website does not imply that the IMF, its Executive Board, or its management endorses or shares the views expressed in the papers.

RESERVE ASSETS TECHNICAL EXPERT GROUP

ISSUES PAPER (RESTEG) # 9

RESERVE RELATED LIABILITIES

1. The fifth edition of the IMF's *Balance of Payments Manual (BPM5)* does not discuss the concept of a monetary authority's reserve-related liabilities. Nonetheless, data on reserve-related liabilities are among those required for Fund surveillance and, for program purposes, the idea of foreign currency drains was introduced in the *Reserves Template*, while users outside of the Fund have expressed interest in the reserve-related liabilities concept.¹⁸

2. The paper asks whether the concept of a monetary authority's reserve-related liabilities should be introduced into the new Manual and, if so, how it could be defined.

I. Current international standards for the statistical treatment of the issue

3. *BPM5* does not explicitly discuss either reserve-related liabilities or net international reserves of a monetary authority, although it does discuss "Liabilities Constituting Foreign Authorities' Reserves" (LCFAR). These are liabilities that are considered, from the viewpoint of the creditor, to be reserve assets (paragraph 447).

4. The associated *Balance of Payments Textbook (BPT)*, which was published in 1996, elaborates some issues on reserve-related liabilities in paragraphs 625-637.¹⁹ The *BPT* states that, "A concept of reserve assets that includes selected liabilities (usually some or all of the external liabilities of a country's monetary authority) permits a more comprehensive view of BOP financing" and "reserves assets and selected official liabilities are the financing (or accommodating) items of the net surplus or deficit resulting from above-the-line (or autonomous) transactions" (paragraph 626). However, the *BPT* considers that "in practice there will be a divergence from country to country regarding the type of claims that are considered reserves and reserve liabilities" (paragraph 629).

5. In 1998, during the period leading up to the development of the Data Template, Fund staff provided the IMF's Executive Board with a definition of reserve assets and related items in a paper entitled "*Data availability, dissemination, and provision to the Fund.*" The paper stated that "reserve-related liabilities can be defined as short-term external liabilities of the monetary authorities (including deposits, loans, securities, and other liabilities) denominated in both domestic and foreign currencies" (page 7). Such reserve related liabilities would be a subset of items in the balance of payments and international investment position (IIP).

¹⁸ For instance, see Richard Erb: "The SDR: an international reserve liability," *Central Banking, Vol. XIV, No 3*.

¹⁹ *BPT*, paragraphs 638-640, refers to LCFAR. *The Annotated Outline* for the revision of *BPM5* suggests discontinuing the classification of LCFAR "since it is considered to be impractical and has not been implemented" (paragraph 5.60). LCFAR is not discussed in this paper.

6. The *Data Template on International Reserves and Foreign Exchange Liquidity: Guidelines for a Data Template (Guidelines)*, published in 2001, does not use the term “reserve-related liabilities” as such, but Section II of the Data Template requires data on scheduled foreign currency obligations of the monetary authorities that are due in the 12-month period ahead. The intention is to compare “liquid” foreign currency assets with “short-term” foreign currency liabilities. Liabilities in domestic currency are excluded and flows not only cover those with nonresidents but also those with residents. Both gross inflows and outflows of foreign currency are presented, so providing information on short-term net drains (or inflows) of foreign currency (*Guidelines*, Chapter 3).

7. Further, in setting performance criteria (PC), the Fund commonly uses a net international reserves concept. Such a measure helps track developments in the balance of payments—a build-up in reserve assets through borrowing would provide mixed messages on the sustainability of the external situation—and serves as an indicator of liquidity pressures on reserve assets. There is no single definition used but essentially reserve liabilities have typically included foreign currency liabilities of the central bank (not central government, which are typically covered in PC under limits on debt) to both residents and nonresidents.

II. Issues arising from the current treatment

8. Since *BPM5*, and particularly since the financial crises of the late 1990s, there has been an increased interest in viewing reserves in the context of the associated liabilities. This is reflected in the Data Template and the continuing use of the reserve-related liabilities in surveillance and in PC set by the Fund. Simply, viewing the gross level of reserves without identifying the associated liabilities could lead to a misinterpretation of the strength of the foreign currency position of the monetary authorities. Thus to aid users, it could be argued that the new *Manual* should incorporate some measures of reserve-related liabilities into its standard presentations. On the other hand, a reserve-related concept could be considered foreign to the balance of payments.

9. The introduction of a reserve-related liabilities measure and how it could be defined raises a number of difficult issues:

- *Should the measure be in the main body of the presentation or included as memorandum, thus required, item?* The advantage of including a category in the main accounts is that the reserve-related category would be given a very high profile. On the other hand, it would both limit the scope of the measure to items already in the balance of payments and IIP (so ruling out liabilities to residents, although these could be separately identified in a memorandum item) and lead to some difficult classification questions, e.g., should all, or none, or part of foreign currency borrowing by general government be included. The latter could create problems of interpretation besides causing a significant disruption to the existing established categories. A required memorandum item could be more flexible in meeting user needs.
- *Should reserve related liabilities be covered in both the transactions and/or stocks?* If a reserve related item is to be included in the accounts then it would seem evident that there

has to be a stock measure given the use of the stock of reserves data in monitoring external vulnerability. However, given that an exceptional financing item already exists in the transactions data and this covers more than transactions in reserve related liabilities, covering, for instance, transactions arising from debt reorganization, the issue of how the transactions data for exceptional financing and reserve-related liabilities would relate would arise. On the other hand, coverage in transactions would support the analysis of the stock data by providing information on factors behind the change in stocks.

- *Should the measure cover foreign currency liabilities only or also some in domestic currency as well?* If reserve assets can only include foreign currency assets, then it would seem appropriate to limit reserve-related liabilities to foreign currency liabilities. The treatment in reserve-related liabilities of instruments indexed to a foreign currency and of instruments settled in foreign currency but denominated in domestic currency need to be considered carefully and might differ from the approach for reserve assets.
- *Should the definition cover the monetary authorities as a whole or just the central bank?* For consistency with the balance of payments and IIP sectoral classification (and Data Template), and to compare like-with-like, a sectoral coverage consistent with that for reserve assets could be considered. The central bank and general government could be separately identified to take account of the possible different motivations behind their borrowing activities.
- *What liabilities should be included and should these be only those that are within the framework of the balance of payments and IIP?* One approach is to include all outstanding foreign currency liabilities, presented using the standard instrument classification in the balance of payments and IIP. One issue that arises is whether to include the market or notional values of derivative positions vis-à-vis foreign currency, and then on gross or net basis. The market value would be consistent with the approach in the accounts, whereas the notional amount would provide information on drains (but is not consistent with IIP framework). Given that forward derivative contracts are “traded” by creating offsetting contracts, a net rather than gross approach might be more appropriate.
- *Should the definition be restricted to transactions and positions with nonresidents only, or also include those with residents?* Including only liabilities to nonresidents would be consistent with the approach in the balance of payments and IIP, whereas including data on residents would not. However, in the *Guidelines* Section II covers both residents and nonresidents because the payments to both affect the foreign currency position of the monetary authorities.²⁰ Also, a measure that excludes residents is more open to “window dressing” as, for instance, residents could be persuaded to place foreign currency deposits

²⁰ If the data on liabilities covers residents as well as nonresidents then a case could be made for having a memorandum item covering the monetary authorities liquid foreign currency claims on residents, and those on nonresidents that are not included in reserve assets, that is a measure similar to Section I.B of the Data Template.

with the central bank so boosting reserve assets while having no impact on reserve-related liabilities. These deposits would be included under a definition that covered residents.

- *What should be the relationship with the Data Template, in particular in relation to maturity?* Section II of the Data Template only covers liabilities falling due in the next 12 months. This provides an indication of the liquidity of the foreign currency position of the monetary authorities. This could be an approach to adopt with reserve-related liabilities. However, data covering all maturities—including IMF loans of all maturities—might help explain developments with reserve assets over time, particularly if a short-term split on a remaining maturity basis was included.

III. Possible treatments

10. Given the increasing interest in data on reserve liabilities, not least that arising from the introduction of the Data Template, consideration could be given in the new *Manual* to including a new category for reserve related liabilities as a memorandum item, for position data at least, covering foreign currency liabilities only.

11. Also, foreign currency liabilities to residents could be included in a memorandum item, either as part of a more widely defined reserve-related liabilities memorandum item or as a separately identified item if a reserve related liabilities category is included in the main account.

12. Beyond this, given that this would be a significant addition, it is proposed that RESTEG members provide their views on the various other issues raised in the previous section and once these are received further work could be undertaken by Fund staff to come up with more detailed specifications, if need be.

IV. Points for discussion

- *In principle, do group members support the proposal in paragraph 10?*
- *If so, do members support the position set out in paragraph 11?*
- *What are members views on the other issues raised in paragraph 9?*

References

BPM5, paragraph 447

Balance of Payments Textbook, paragraph 625-637

Guidelines, paragraphs 119-125, and Chapter 3

Annotated Outline, paragraph 5.60

Richard Erb, “SDR: An International Reserve Liability,” *Central Banking*, Vol. XIV, No 3, February 2004.

APPENDIX V:

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

OUTCOME PAPER (RESTEG) # 9

Reserve Related Liabilities

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The views expressed in this paper are those of the author(s) only, and the presence of it, or of links to it, on the IMF website does not imply that the IMF, its Executive Board, or its management endorses or shares the views expressed in the papers.

**RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)
OUTCOME PAPER (RESTEG) #9**

(1) **Topic:** Reserve-related Liabilities (RRL)

(2) **Issues:** See RESTEG Issues Paper #9

(3) **Outcome of the Discussions:**

(i) RESTEG agreed that RRL should be presented in the main accounts of the BOP/IIP, rather than as a memorandum item. It was noted that such a category might cause an overlap with exceptional financing in the analytical presentation and this needed to be considered.

(ii) RESTEG agreed that RRL should only include liabilities to non-residents, not least for the consistency within the balance of payments framework. Some stated that liabilities to residents could be provided via different presentation, i.e., as a memorandum or supplementary item. No firm views could be reached on memorandum/supplementary items.

(iii) RESTEG agreed that RRL should be foreign currency liabilities only. The issue of hedging through derivatives was raised and it was noted that some proposals on monitoring in the IIP foreign currency hedging through derivatives is being prepared for BOPCOM discussion.

(iv) There were differing views on whether total reserve related liabilities or only short-term reserve related liabilities should be included in RRL. The consensus was broadly in favor of presenting the total, with a remaining short-term (one-year) maturity split, as countries use foreign currency borrowing to raise forex reserves, while also it was noted that monitoring the short-term liquidity position is important.

(v) Regarding sectoral coverage, the majority preferred the same institutional coverage as reserve assets. However, the importance of monitoring government foreign currency external debt was emphasized and again it was noted that some proposals for providing detail on foreign currency borrowing more generally in the IIP is being prepared for BOPCOM discussion.

(4) **Rejected Alternatives:**

None.

(5) **Action:**

RESTEG outcomes to be included in the draft Manual for BOPCOM review, including the idea of adding a memorandum or a supplementary item to cover RRL to residents. The implications for the standard components are to be set out for BOPCOM's attention.

References

BPM5, Chapter XXII, Appendix IV

BPM4, Chapter 7, 8

Balance of Payments Textbook, Chapter XII

AO, Chapter 1.D, Chapter 2.E, Chapter 13 C, D

International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template, paragraphs 110–117

IMF Statistics Department, *Revision of BPM5: issues on International Reserves* (BOPCOM-05/70, <http://www-stg-ext.imf.org/external/pubs/ft/bop/2005/05-70.pdf>)

IMF Statistics Department, *Reserve Related Liabilities (RESTEG issues paper # 9)*, <http://www-stg-ext.imf.org/external/np/sta/bop/pdf/resteg9.pdf>)

IMF Statistics Department, *Outcome Paper (RESTEG) # 9* (<http://www-stg-ext.imf.org/external/np/sta/bop/pdf/resout9.pdf>)

Richard Erb, “SDR: An International Reserve Liability,” *Central Banking*, Vol. XIV, No 3, February 2004.