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**Developing a New Approach to Compiling
the Balance of Payments in The Netherlands**

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Developing a new approach to compiling the balance of payments in the Netherlands

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1. INTRODUCTION

In early 2003 De Nederlandsche Bank (DNB) changed its system to compile the Dutch balance of payments (BOP) and international investment position (IIP) from a settlements system to the current direct reporting system.² This system is characterised by extensive and fully-reconciled monthly reports of transactions and positions broken down by the country and sector of the counterparty (security-by-security for securities transactions) and still produces monthly BOPs and quarterly IIPs of good quality. Yet, recent years have seen a number of developments that have prompted a reconsideration of the current approach and the development of a new vision on the compilation of the Dutch BOP. Under the new vision, DNB will 'derive' the BOP from an extensive sectoral reporting primarily aimed at compiling sector statistics and the national accounts, while aiming at full consistency between the published BOP and the national accounts.

Section 2 of this paper describes the developments that have prompted the new vision, while section 3 sets out the vision. Section 4 discusses the practical implementation in greater detail. Finally, the paper raises a number of questions for discussion.

2. THE RATIONALE FOR DEVELOPING A NEW VISION

In recent years there have been two important driving forces behind the development of a new vision that will form the basis for a new system for compiling sector statistics and the BOP.³

First, the consistency between the BOP/IIP and the rest-of-the-world (ROW) account as part of the national accounts has become an important area of concern. External statistics have been in the spotlight since the financial crisis broke out in 2007, certainly also in Europe.⁴ Policy makers and other users have problems dealing with sometimes considerable differences – due to a multitude of causes – between important indicators such as the current account balance and the net IIP stemming from the BOP on the one hand, and the same indicators produced in the context of the ROW account on the other. Also in the Netherlands there are considerable differences between the BOP and the ROW account, caused in particular by differences in the sources used and revision policies followed. Over recent years, DNB and Statistics Netherlands (CBS), the latter being responsible for the compilation of the Dutch national accounts including the financial accounts, have intensified their cooperation in order to reduce the differences. For example, DNB and Statistics Netherlands have fully aligned their populations of non-financial corporations and now compare the individual data of large multinationals as submitted to them. They also carry out (ex post) macro-level comparisons of their statistics in order to understand and reduce differences

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² See "Balance of payments in the Netherlands – The road to a modern survey system", [DNB Statistical Bulletin Special Edition](#), May 2003.

³ The new system is part of a broader DNB statistics innovation programme – called "Caesar" – in which DNB will migrate all statistics, including those related to supervision, to a new environment while revising work processes.

⁴ In the European Union, the Macroeconomic Imbalances Procedure (MIP) entered into force in 2011. Under the MIP, an alert system based on a macroeconomic scoreboard identifies imbalances within and between individual EU countries. Countries are urged to address such imbalances where necessary. The scoreboard contains various BOP indicators, including the current account balance and the net IIP.

where possible. Despite these efforts, considerable differences in published statistics remain. For instance, the Dutch net IIP in 2013 as reported in the BOP statistics was about EUR 250 billion (40 per cent of GDP) lower than the net IIP published in the national accounts (approximately EUR 300 billion versus EUR 550 billion).⁵

Second, the outbreak of the financial crisis highlighted a greater need for statistics about individual financial sectors. Within the European System of Central Banks (ESCB), this has resulted in new legislation on the compilation of ESCB sector statistics and the submission of these statistics to the ECB. While banks have been subject to a specific statutory reporting framework – mainly to support the ECB’s monetary policy – for some time, financial stability considerations have more recently been an extra driver for the development of statistics legislation also for investment funds, special purpose vehicles and insurance companies. New ESCB legislation might be anticipated for the pension funds sector as well. The development of these sector statistics also benefits the development, also at a European level, of a fully-fledged system of quarterly sector accounts. The significance of quarterly sector statistics has expressly been recognised in the G20/FSB Data Gaps Initiative as it would allow for instance for thorough balance sheet analysis. DNB’s system, implemented in 2003, was originally developed for the compilation of the BOP and the IIP. Over the years, however, the development towards sector statistics have resulted in an expansion of the system, which now also encompasses domestic transactions and positions of various financial subsectors.⁶

3. BASIC PRINCIPLES FOR A NEW BOP SYSTEM

An important objective of the new vision on the compilation of the BOP is to *achieve full consistency between the BOP and the ROW account*. That is why DNB and Statistics Netherlands have decided to align their processes and further streamline the sources used to produce these statistics. In that process, adjustments to the ROW account as a result of integrating (i.e. making internally consistent) the sector accounts will also be incorporated in the BOP. The primary focus will shift from the monthly BOP to the *compilation of statistics on a quarterly basis*.

a. Consistency between BOP and ROW account

One of the causes of the current differences between the BOP and the ROW account is that DNB and Statistics Netherlands use different and sometimes inconsistent sources, including surveys, particularly for non-financial sectors. It is also evident that both DNB and Statistics Netherlands collecting and verifying comparable information (followed by a comparison of outcomes) is inefficient. DNB and Statistics Netherlands have decided to develop a *new consistent report* for all financial sectors and the non-financial corporations with the aim of compiling high-quality sector statistics (and meeting the relevant ESCB legislation), which will also serve as input for the national accounts.⁷ While the BOP takes centre stage in the current Dutch system, it will be ‘derived’ from the new reports in the new system. That is because there will be a comprehensive and consistent reporting framework that reconciles data for all observable sectors, covering both domestic and cross-border transactions and positions. Reporting institutions will have to provide complete and

⁵ These are the data as published before the revisions of the BOP and national accounts in 2014. The discrepancies have decreased as a consequence of these revisions. For instance, the net IIP for revision year 2010 of Statistics Netherlands totals EUR 20 billion, while the figure of DNB totals EUR 58 billion.

⁶ As a consequence, the system has become more complex, at the expense of its performance and flexibility. The new system and DNB’s statistics innovation programme in general (see also footnote 1) seek to achieve greater flexibility (i.e. it should be relatively easy to adjust or expand the system) and more transparent processes producing statistics that can be traced back at any stage of the process.

⁷ Given the strict statutory monthly requirements for banks and the central bank, their current monthly reporting regime (used for compiling sector statistics, sector accounts and the BOP) will remain intact.

balanced balance sheet data and a profit and loss account, with a breakdown by the country and sector of the counterparty if relevant. It is crucial that the data collection is primarily based on *statistical terms and definitions*. That way, the reported data can, as much as possible, be used directly in producing statistics – without statisticians having to make adjustments to accounting terms, given that the reporter is deemed to be in a better position to make such adjustments.⁸ These statistical terms and definitions, and the reportable details, have been derived from the most recent publications of the System of National Accounts (2008 SNA) and the IMF's Balance of Payments Manual (BPM6). With the most recent updates to these manuals, the methodological standards for the national accounts and the BOP are now fully harmonised. On the basis of these manuals, a single data collection approach can fulfil a large part of the information needs for compiling the national accounts, the BOP and the sector statistics.⁹

The new vision makes a distinction between the sector statistics as source statistics on the one hand, and the BOP and national accounts as integrated statistics on the other. The BOP and national accounts as integrated statistics use a multitude of sources¹⁰, including estimates, which are confronted with each other. The BOP and the national accounts are made mutually consistent. Sector statistics underpin the integrated statistics, but they are not necessarily consistent with them. Sector statistics are more closely linked to the observation and often become available more quickly and with additional details, for example, for the benefit of financial stability analyses.

Except through integrating sources, the mutual consistency between the BOP and the ROW account will also be enhanced by the *joint integration of these statistics* in the context of the sector accounts. The quality of the BOP will profit from a comparison with information from other sources and sectors during this integration process. In effect, joint integration means that adjustments to the ROW account resulting from the sector accounts integration are also included in the corresponding BOP items. From an institutional perspective, this change implies that integrating the sector accounts, including the ROW account, will be a joint responsibility and effort of Statistics Netherlands and DNB. Currently, Statistics Netherlands is responsible for the integration, without DNB having any direct involvement. Under the new vision, DNB will participate in the integration process through its BOP experts but also through its financial sector experts. On the one hand, the latter will bring additional source expertise to the table for making decisions related to the sector accounts integration. On the other hand, the sector specialists may be able to learn from problems or insights revealed by the integration process, which can help them to improve the quality of the sector statistics, even though adjustments arising from the integration will not be copied directly to sector statistics (being source statistics).

A final important condition for consistency between the published BOP and the ROW account concerns the application of a *harmonised revision policy*. The national accounts have a tradition of long continuous time series, with a full revision taking place every five to ten years. The BOP, however, is traditionally kept more actual, with several revisions every year and, as a result, frequent breaks in series. For the development of a future harmonised revision policy a 'hybrid' approach will be taken as a starting point. In this approach the financial accounts of the sector accounts and the BOP is revised annually, while the current account (including supply and use tables) will be revised at least once every five years. While revisions play a major role in the

⁸ An example concerns adjusting the book value of a company's equity capital to reflect the market value. The conversion from accounting items to statistical items results in reported balance sheets that usually do not balance. In the new report, a balancing item is foreseen that reflects the net effect of this conversion (and which should be explained by the respondent if sizeable).

⁹ Generally speaking, the legal requirements for the ESCB sector statistics are in line with 2008 SNA. Where they are not, SNA will prevail. Additional needs arising from the development of sector statistics are incorporated in the new quarterly reports.

¹⁰ With the transition from settlements systems to direct reporting systems, the BOP has basically evolved from a (single) source statistic to an integrated statistic.

financial accounts, for current account items (including indicators such as GDP) users are more interested in stability and continuous series. In addition, a revision of the current account is more complicated and more labour-intensive due to the size and level of detail of the system of supply and use tables. Should different revision frequencies lead to too much 'pressure' between the current and the financial accounts, it would be possible to carry out an extra revision of the current account.

b. Focus on quarters rather than months

Under the current Dutch system, DNB collects data for the BOP and the IIP on a monthly basis only (except for some annually reported data on direct investment income and stocks). DNB, however, does not publish a monthly BOP for the Netherlands because users have never shown interest in a *national* BOP on a monthly basis.¹¹ DNB does compile – and submits to the ECB and Eurostat – a provisional BOP containing the main items within 44 days after the reference month. This BOP forms a building block for the monthly BOP of the euro area (aimed primarily at supporting the monetary policy) and the EU. DNB submits to the ECB and Eurostat and publishes nationally an extensive BOP and IIP on a quarterly basis. Under the current system, quarterly data are constructed as the sum of the three underlying months. Presently, DNB collects far more monthly data (transactions breakdowns, positions and revaluations) from reporters than it needs every month.

The new process primarily focuses on the production of quarterly statistics. Users deem it increasingly important to have consistent and high-quality quarterly macroeconomic statistics.¹² DNB will have to continue its production of a limited monthly BOP for the European institutions, but the monthly process will be set up in a less burdensome form and with much less reporting. Simulations have shown that it may well be possible to initially estimate (the main items of) the current account of the Dutch monthly BOP, provided that monthly information about the exports and imports of goods is available (which is the case from the monthly trade statistics). The differences between the initial estimates and the final (i.e. last known) measurements turn out to be very much in line with the amendments to the initial monthly outcomes observed in the current system. DNB intends to compile the initial financial account on a monthly basis using existing sources (in particular banks' monthly monetary reports) in combination with monthly security-by-security reporting on portfolio investments by the relevant population. Security-by-security reports are mostly standardised by reporters, so can relatively easily be submitted on a monthly basis. In particular with regard to portfolio investment and other investment (the latter largely filled with data from banks' monthly reports), users wish to have data with high frequency and timeliness to quickly identify economic and financial developments. Information on direct investment is used mostly in structural economic analysis. In addition, direct investment flows are difficult to estimate reliably on a monthly basis without a relatively large reporting sample.¹³ For direct investment, DNB plans to concentrate on compiling high quality quarterly data, while treating this item as a balancing item in the monthly BOP (i.e. as the difference between the balance on the current and capital account and the combined balance of the other parts of the financial account).¹⁴ In line with this approach, DNB would favour a future development in which the monthly information needs for

¹¹ Even when the Netherlands still had its own currency, DNB did not publish the BOP monthly.

¹² While, traditionally, many countries – in particular where a settlements system has been used – compile their BOP on a monthly basis, national accounts are originally compiled on an annual basis in many countries. The fundamental choice for consistent quarterly statistics that meet the needs of users results in a convergence of frequencies.

¹³ In the Netherlands, a relatively large population of Special Purpose Entities reside, which makes estimating direct investment figures particularly challenging (even more on a monthly basis with short timeliness). These entities tend to have significant (irregular) flows especially in direct investment.

¹⁴ DNB investigates whether monthly information on the financial derivatives balance can be estimated from new regulatory data from trade repositories and central counterparties. After the quarterly BOP has been compiled, DNB will replace the initial monthly estimates with the quarterly data allocated to the relevant three months.

monetary policy could be met by using a number of important – readily available – monthly indicators rather than a monthly BOP. This could include indicators reflecting trade balance developments, developments in portfolio investment and, with a view to possible liquidity outflows, indicators for transactions between banks (including official reserves).¹⁵

The communications with reporters about the new extended quarterly data collection approach will emphasise that monthly reports will be discontinued or that they will be much more limited. The 'lighter' monthly process will also save resources at DNB, which – except in other new and demanding statistics domains – can be used in reviewing quarterly reports and aligning the BOP with the ROW account. The extra focus of both reporters and DNB statisticians on producing accurate and consistent quarterly statistics should result in high-quality quarterly information (BOP, sector accounts and sector statistics). However, the quality of the monthly BOP (i.e. the monthly contributions to the euro area and EU balance of payments) will fall somewhat.

4. PRACTICAL IMPLEMENTATION OF THE NEW VISION

In the spring of 2014, DNB and Statistics Netherlands started a joint project working step by step towards achieving full consistency between the BOP and the ROW account as of the start of 2017, when the new reporting forms for the financial sectors and non-financial corporations are intended to be introduced. The project has been split up into two stages: stage 1 for working out the details of the vision (until mid-2015) and stage 2 for the practical implementation. Stage 1 breaks down into the following joint workflows:

- a. An overarching workflow aimed at *setting up the overall process* for compiling the BOP and the sector accounts, including timelines. See Annex 1 for a high-level diagram of this process. This shows how DNB will ensure delivery of ESA-compliant sector statistics (i.e. statistics on transactions and stocks compiled in accordance with the European System of Accounts framework¹⁶) – resulting from the new quarterly data collection approach – to Statistics Netherlands for the benefit of the sector accounts integration process, in which DNB will also be actively involved. Any adjustments to the ROW account resulting from the integration will also be included in the BOP for publication. This workflow also covers elaborating the *division of observation responsibilities*. In principle, DNB will be responsible for observing the financial subsectors, while Statistics Netherlands will take on the observation of the non-financial sectors (non-financial corporations, government, households and non-profit institutions) for the national accounts and the BOP. This streamlining of roles does justice to the comparative advantages of DNB – as the central bank, keeper of financial stability and supervisor of the financial sector – and Statistics Netherlands, which has always had a good understanding of the non-financial sectors. It also addresses the current fragmentation and redundancy in observation.
- b. A workflow fleshing out a harmonised *revision policy* (in line with the 'hybrid approach' described above) and aligning DNB's and Statistics Netherlands' *publication policies*.
- c. A workflow for the *financial subsectors* to assess whether the quarterly data collection by DNB fully satisfies the information needs for the national accounts. The workflow also maps out for each subsector the specifications of ESA-compliant data delivery by DNB to Statistics Netherlands. The aim is to deliver subsector data in a format that makes them suitable for direct use in the sector accounts integration process. In the current process, Statistics

¹⁵ Similar considerations have led the Australian Bureau of Statistics to move from a monthly BOP statement to monthly indicators; see "Do we need Monthly Balance of Payments Statistics?", [ABS Information Paper](#), January 2007.

¹⁶ The European System of Accounts (ESA) works out the System of National Accounts (SNA) and its transposition into European legislation. ESR2010 specifically elaborates on 2008 SNA.

Netherlands sector specialists convert the data provided by DNB into the desired format with the help of keys while adding estimates for some items. In the new process, DNB will be responsible for ESA-compliant delivery of the financial subsector data.

- d. A workflow for developing a new reporting model for *non-financial corporations*, which includes the BOP and the national accounts information needs. The new data collection reports for non-financial corporations to be submitted to Statistics Netherlands are to replace the current reports of non-financial corporations to Statistics Netherlands and DNB. Combining the data collection by Statistics Netherlands and DNB will not only lead to a reduced reporting burden and a more efficient division of tasks, but will also ensure consistent source data for the BOP and the national accounts. DNB and Statistics Netherlands still must decide on the processing of security-by-security reports by non-financial corporations on securities issued and purchased. DNB has a processing system which enhances such reports by adding reference data from the ESCB Centralised Securities Database (CSDB). One of the options is that DNB will take on responsibility for the processing of the security-by-security data that are received by Statistics Netherlands.
- e. Workflows for the *government, households and non-profit institutions serving households* sectors, which aim at identifying the joint information needs of DNB and Statistics Netherlands for these sectors and investigate whether this information can be collected by one institution (in principle, by Statistics Netherlands).
- f. Finally, there is a workflow specifically aimed at identifying any quick wins that could be realised before 2017. The first result was delivered together with the transition to the new IMF manual for balance of payments (BPM6). At this opportunity, a full alignment took place of a number of key variables from the current account of the BOP (goods and services; certain primary and secondary income flows) with the 'integrated' levels from the national accounts. To facilitate this, DNB and Statistics Netherlands made new arrangements and DNB extended the timelines for the BOP compilation process.

In addition to this joint DNB-Statistics Netherlands project, DNB has also set up internal projects (1) to examine and develop a 'light' process for the monthly BOP and (2) to design a completely new system for processing the new quarterly data collected to produce (ESA-compliant) sector statistics and the 'new' BOP.

DNB is interested to learn from other statistics compilers their vision on the compilation of the BOP as set out in this paper. In particular, DNB has the following questions:

- 1. Do countries have experience with merging data collection reports for the BOP and the national accounts? What challenges did they encounter in the process and how did they cope with them?*
- 2. Are there any experiences with a parallel integration of the BOP and the ROW account within the sector accounts (i.e. with including any adjustments to the ROW account related to sector accounts integration in the BOP)?*
- 3. Are there countries applying a harmonised revision policy for the BOP and the national accounts, and what does this policy look like? Are there any countries with experience of the 'hybrid approach' described in this paper?*
- 4. Is the limited need for a monthly BOP recognised in other countries? Could readily available indicators on a monthly basis be sufficient to support monetary policy?*

Annex: diagram of the new quarterly process

