IMF Committee on Balance of Payments Statistics

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List of Abbreviations

1993 SNA	1993 *System of National Accounts*
ANNA	Association of National Numbering Agencies
APEC	Asia-Pacific Economic Cooperation
BIS	Bank for International Settlements
BOPSY	*Balance of Payments Statistics Yearbook*
BPM5	*Balance of Payments Manual*, 5th edition
CPC	Central Product Classification System
EMI	European Monetary Institute
EMU	Economic and Monetary Union
EU	European Union
FDI	foreign direct investment
GFS	Group of Financial Statisticians
Godeaux Report	*Final Report of the Working Party on the Measurement of International Capital Flows*
G-10	Group of Ten (industrial countries)
ISIN	International Securities Identification Number
ISWGNA	Inter-Secretariat Working Group on National Accounts
ITISS	international trade in services statistics
MMFS	*Manual on Monetary and Financial Statistics*
Survey Guide	*Survey Guide for the Coordinated Portfolio Investment*
Trade Manual	*Manual on International Merchandise Trade Statistics, Concepts and Definitions*
UIC	Ufficio Italiano dei Cambi
UNSD	United Nations Statistical Division
WTO	World Trade Organization

Annual Report of the IMF Committee on Balance of Payments Statistics

I. Introduction

The IMF Committee on Balance of Payments Statistics was established in 1992 for the following purposes: to oversee the implementation of the recommendations contained in the reports of two IMF working parties[1] that investigated the principal sources of discrepancy in global balance of payments statistics published by the Fund; to advise the Fund on methodological and compilation issues in the context of balance of payments and international investment position statistics; and to foster greater coordination of data collection among countries. The membership of the Committee as of December 31, 1997, and its terms of reference are presented in Appendix 1 and 2, respectively. Unlike in preceding years, when two meetings a year were held, the Committee held only one meeting in 1997–-in October in Washington, D.C.

This annual report is structured as follows: Section II presents the Executive Summary. Section III provides an overview of statistical discrepancies in the global balance of payments statistics published by the Fund's Statistics Department. Section IV discusses the Committee's work program during 1997, and Section V concludes with a discussion of the issues that the Committee plans to address in the coming year.

II. Executive Summary

The following summary discusses recent trends in global balance of payments statistics and the Committee's work program in 1997.

Recent Trends in Global Balance of Payments Statistics

Balance of payments statistics reported to the Fund's Statistics Department and published in the 1997 *Balance of Payments Statistics Yearbook* continue to reveal sizable discrepancies in global summations of current, capital, and financial account transactions. In principle, the world current, capital, and financial accounts should each sum to zero, but this does not happen in practice because of different recording practices among countries with respect to coverage, valuation, classification, and timing of cross-border transactions.

In the global current account statistics, the discrepancies in the component items have been relatively stable in the last three years, with the data on investment income and goods transactions continuing to show the largest imbalances between recorded credits and debits. In financial account transactions, the discrepancy in portfolio investment was unusually large in 1996; recorded transactions in portfolio investment liabilities exceeded portfolio investment assets by more than $200 billion.

Committee Work Program

In 1997, preparations for the conduct of a coordinated portfolio investment survey (the Coordinated Survey) in respect of year-end 1997 remained at the center of the Committee's work program. As the reference date approached, it appeared that about 30 countries—including virtually all of the most important investing countries—had undertaken the necessary preparatory work to conduct the Coordinated Survey. This survey will be the first internationally coordinated survey of portfolio investment assets.

In June 1997, the Fund hosted a second meeting of national compilers for the Coordinated Survey; the first was held in September 1996. Thirty-seven compilers from 28 countries attended the meeting. The meeting allowed compilers to share experiences and advice in implementing their national surveys and allowed the Fund to seek their views on various issues relating to the coordination of the project. As at the first meeting, the degree of interaction and discussion among participants was notable.

Also in the context of the Coordinated Survey, the Committee recommended that the Fund investigate methods of enhancing the results of the survey to ensure more complete coverage of portfolio investment assets. The Committee supported the Fund's proposal to approach major reserve-holding countries for information on securities held as foreign exchange reserve assets; this information is necessary to produce a comprehensive picture of portfolio investment liabilities, a key objective of the Coordinated

[1]Working Party on the Statistical Discrepancy in World Current Account Balances (*Final Report*, September 1987) and Working Party on the Measurement of International Capital Flows (*Final Report*, September 1992).

Survey. Looking ahead, the Committee agreed that a third meeting of national compilers should be held, probably around late 1998, to discuss and review both the initial results and the practical lessons learned from conducting the Coordinated Survey. Also, the Committee approved a Fund proposal to publish the final results, which are anticipated to be available around the end of 1999.

The methodological treatment of financial derivatives was also a central feature of the Committee's work in 1997. In April, the Fund circulated to Committee members and to economic statisticians in all IMF member countries a comprehensive discussion paper on the measurement of financial derivative activity in the macroeconomic accounts. This discussion paper—which reflected the work and discussions on financial derivatives undertaken in various international statistical forums including the Committee—proposed several clarifications and changes to the treatment of financial derivatives recommended in the *1993 System of National Accounts* (*1993 SNA*) and the fifth edition of the IMF's *Balance of Payments Manual* (*BPM5*). The proposals received widespread support and, in October, were approved by the Inter-Secretariat Working Group on National Accounts (ISWGNA) and the Committee. The relevant sections of the *1993 SNA* and the *BPM5* will be revised, and the revised standards will be reflected in the IMF's *Manual on Monetary and Financial Statistics* (*MMFS*), which is due to be published in the first half of 1998.

The Committee gave high priority in its work to statistics on trade in goods and services. In the field of trade in goods, the Committee reviewed work presented by Committee members from Germany and Russia on the conceptual and practical reporting problems raised by the increasing value of goods purchased abroad by travelers for resale in their home countries—"shuttle trade." The Committee agreed that for its next meeting, in 1998, the Fund should set out the appropriate conceptual approach and present information on the practical reporting problems raised and how they are being tackled in different countries. In the field of trade in services, the Committee reviewed, and welcomed, the efforts by international agencies, including the World Trade Organization (WTO), to ensure, as far as possible, compatibility among their data requirements in this field. Further work to strengthen links between related requests for trade in services data is to be undertaken in 1998 both at the Fund and at other international agencies.

Following the developments in financial markets, particularly in Asia, the Committee at its October meeting conducted an initial discussion of possible enhancements to the coverage of reserve assets and related data. Any enhancement of coverage raises new conceptual issues, because the *BPM5*, while providing a definition of reserve assets, does not provide any definition of reserves-related data. The initial discussion highlighted the differences in views in this sensitive area of statistics. In addition, the Committee reviewed a paper from the Fund on the statistical treatment of repurchase agreements that involve reserve assets.

After consultation with the Committee and the OECD's Group of Financial Statisticians (GFS), the IMF and the OECD in May jointly launched a comprehensive survey of data sources, collection methods, and dissemination and methodological practices for foreign direct investment statistics. More than 110 countries participated in the survey. This very encouraging response indicated the importance that national compilers attach to these data. The Committee received a report on the preliminary results and on the development of the metadatabase to store information on country practices. The Committee encouraged the Fund and the OECD to consider developing a mechanism to keep the metadata current and to develop links between the metadatabase and the actual data published by countries.

The Committee continued to monitor the progress that countries are making in reporting their balance of payments and international investment position data to the Fund on the basis of the classification system of the *BPM5*. It also monitored progress being made with the projects to enhance international banking statistics and to develop a database on individual securities to assist in the country attribution of securities in the Coordinated Survey. Among the subjects of papers reviewed by the Committee were the measurement of reinvested earnings in Chile; the new Italian system for collecting data on tourism; European developments on financial intermediation services indirectly measured; and the implementation of the *BPM5* recommendations on trade in services in Canada and the United Kingdom. The Committee heard a report from the European Monetary Institute (EMI) on the progress toward producing meaningful extra–European Monetary Union financial account and investment income data, based on the conceptual framework contained in the *BPM5*.

During 1997, the IMF established a site on the World Wide Web to make the work of the Committee more widely accessible. Further information on the contents of this site is set out in Box 1 of this report.

III. Recent Trends in Global Balance of Payments Statistics

Introduction

In principle, the combined surpluses and the combined deficits arising from the current account transactions of

Box 1. Internet Site for the IMF Committee

In May 1997, the IMF launched a site on the World Wide Web covering the work of the IMF Committee on Balance of Payments Statistics. The address of the site is http://www.imf.org/bop. The purpose of the site is to publicize the activities and work of the Committee. Many of the papers and projects that are discussed at the Committee itself receive publicity through the *Annual Report* and the semiannual *Balance of Payments Statistics* newsletter. The development of a site on the World Wide Web now creates the possibility of providing a wider audience with information about the Committee's activities on a more frequent basis.

The Web site contains five pages.

- The first page provides general information about the Committee. At end-1997, it also included a paper summarizing the work and preliminary results from the joint IMF/OECD survey of direct investment methodology.
- The second page provides the IMF's *Balance of Payments Statistics* newsletter. The newsletter is published twice a year—in June and December—and is posted onto the Web site shortly thereafter. At end-1997, this page included all the newsletters published between June 1995 and June 1997.
- The third page provides full versions of a selection of working papers presented to the Committee. These papers invariably provide examples of best practice in the compilation of balance of payments data as well as sharing experiences on common compilation issues. While the newsletter includes summarized versions of many of the papers presented, the World Wide Web site provides the opportunity to make full versions of the paper available to a wider audience. As of the end of 1997, this page included two complementary papers from Statistics Canada regarding foreign portfolio investment in Canadian bonds and a paper from the Deutsche Bundesbank on the *Comparison of Bilateral Balance of Payments Between Portugal and Germany*.
- The fourth page provides the annual reports of the IMF Committee on Balance of Payments Statistics for 1995 and 1996. These are published annually in February or March, and it is intended that beginning in 1998 they will be made available on the World Wide Web site soon after publication. In the month following the introduction of the Web site in May 1997, this page was one of the most widely viewed of all the pages posted by the IMF on the Internet.
- The fifth page provides information on the Coordinated Portfolio Investment Survey—the top priority project of the IMF Committee. At end-1997, this page included an introduction to the Survey, a brief summary of the contents of the *Survey Guide for the Coordinated Survey*, and a report on the June 1997 meeting of national compilers for the Coordinated Survey.

The site is updated with new information every month.

The Fund would welcome comments on the Committee's World Wide Web site, including suggestions on how it can be enhanced. All material that is posted on the site is available in paper form from the Fund on request.

all countries (including international organizations) should offset each other, because one country's credits are the debits of another country. The same principle applies in the recording of world capital and financial transactions. However, in practice, sizable statistical discrepancies are evident in the global balance of payments statistics, primarily reflecting incomplete coverage and inaccurate recording of cross-border transactions by countries. Each year, the Fund's Statistics Department publishes in its *Balance of Payments Statistics Yearbook* (*BOPSY*) a summary statement of the global discrepancies in the main components of the balance of payments statistics. These data, which are presented in a slightly different format in Tables 1 and 2 of this report, show considerable variability, but the broad trends remain fairly stable. It should be noted that many errors and omissions would offset or cancel each other and therefore would not be reflected in the net balances shown in these tables.

The global current account data continue to show a persistent excess of recorded debits over credits, although the overall imbalance has come down considerably in recent years. Current account debits exceeded credits by some $40 billion a year in 1994–96–-less than half the discrepancies recorded in 1990–93. However, this development masks large discrepancies in some of the component items that make up the current account. Discrepancies among the component items will partly reflect differences among countries in their classification of external transactions, given that not all countries have yet converted their national compilation systems to the classifications and definitions recommended in *BPM5*. The global data on financial account transactions continue to show a large excess of recorded credits over debits. This discrepancy averaged

Table 1. Global Discrepancies in Current Account, 1990–96
(In billions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
Current account balance	–109.9	–113.4	–102.7	–63.7	–45.0	–41.9	–40.5
Goods balance	26.9	34.5	49.1	74.4	101.6	121.8	102.0
Service balance	–39.8	–42.3	–32.7	–21.4	–9.2	–16.7	2.7
Transportation	–48.2	–50.8	–56.5	–57.7	–59.3	–70.8	–70.5
Travel	11.4	15.8	14.0	25.2	23.5	28.2	40.8
Government services	–13.2	–32.1	–23.6	–10.8	–11.1	–13.7	–13.5
Other services	10.1	24.8	33.4	22.0	37.7	39.5	45.8
Income balance	–66.7	–71.3	–77.0	–73.3	–85.9	–101.2	–98.9
Compensation of employees	–8.0	–8.3	–9.3	–10.0	–10.4	–10.9	–4.4
Reinvested earnings	50.9	46.3	36.0	43.1	43.1	59.5	63.6
Other direct investment income	–8.3	–1.0	2.7	–2.7	2.9	–22.7	–19.0
Portfolio and other investment income	–101.2	–108.3	–106.4	–103.8	–121.4	–127.0	–139.2
Current transfers balance	–30.4	–34.3	–42.1	–43.4	–51.4	–45.8	–46.2
Memorandum items							
Current account balance as percent of gross current account transactions	1.0	1.0	0.9	0.5	0.3	0.3	0.2
Goods balance as percent of gross goods transactions	0.4	0.5	0.7	1.0	1.2	1.2	1.0
Service balance as percent of gross service transactions	2.2	2.3	1.6	1.1	0.4	0.7	0.1
Income balance as percent of gross income transactions	3.8	3.9	4.1	3.9	4.3	4.2	3.9
Current transfers balance as percent of gross current transfer transactions	5.7	5.2	6.7	7.3	8.5	6.9	6.7

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 48, Part 2 (Washington, D.C., 1997).

$126 billion a year over 1990–96 and, during this period, was less than $100 billion in only one year. In 1996, the imbalance amounted to $165 billion, reflecting the fact that the discrepancy in the data on portfolio investment transactions, at $227 billion, was especially large.

Global Current Account

The global current account data presented in Table 1 show an excess of recorded debits over credits of $40 billion in 1996, in line with the previous two years. Among the standard components that make up the current account, the data on income transactions—compensation of employees and investment income—show an excess of recorded debits over credits of nearly $100 billion in 1996. Income relating to portfolio and other investment reflects the largest discrepancy; overall, the discrepancies in income from direct investment (other than reinvested earnings) have not been large. The sign of the discrepancy in investment income (debits exceed credits) is consistent with the sign of the discrepancy in the global financial account data, where recorded inflows (foreign liabilities) are consistently higher than recorded outflows (foreign assets).

An equally large imbalance was recorded on transactions in goods, but the sign of the discrepancy was in the opposite direction to that of income transactions; credits (exports) exceeded debits (imports) by $100 billion. The discrepancy in goods transactions widened noticeably in 1993 and averaged just over 1 percent of the gross value of exports and imports since that time. One factor contributing to the imbalances in recent years has been the introduction in 1993 of a new trade reporting system in the European Union (EU) as a part of the development of a single European market. That is, on January 1, 1993, Intrastat—a survey of businesses that engage in trade with other EU member states—was introduced to replace the customs-based recording system that was employed before 1993. The data on intra-EU trade published by Eurostat show recorded exports to be, on average, some $50 billion a year higher than imports in 1993–96. Euro-

Table 2. Global Discrepancies in Capital and Financial Accounts, 1990–96
(In billions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
Capital account balance	14.8	12.7	17.6	17.5	19.8	17.5	19.6
Financial account balance	109.0	166.6	145.8	107.8	72.9	117.7	164.7
Direct investment	–37.5	–39.3	–22.5	–6.1	–15.4	11.0	12.6
Abroad	–238.3	–194.1	–191.7	–223.4	–252.4	–321.5	–318.1
In the reporting economy	200.8	154.8	169.2	217.3	237.0	332.6	330.8
Portfolio investment	30.0	67.9	100.2	135.0	74.9	158.5	227.3
Assets	–183.8	–335.9	–357.4	–558.2	–328.7	–370.2	–582.7
Liabilities	213.8	403.8	457.5	693.2	403.6	528.7	810.0
Other investment	140.0	154.8	91.1	35.4	45.6	–12.7	–8.8
Assets	–498.2	20.2	–299.2	–427.3	–269.2	–676.5	–766.8
Liabilities	638.2	134.5	390.4	462.8	314.8	663.8	758.0
Reserves	–83.2	–49.1	–62.8	–90.9	–102.9	–180.7	–180.8
Liabilities constituting foreign authorities' reserves	59.7	32.3	39.7	34.2	70.6	141.6	114.3
Memorandum items							
Current account balance	–109.9	–113.4	–102.7	–63.7	–45.0	–41.9	–40.5
Net errors and omissions	–13.9	–65.9	–60.7	–61.5	–47.7	–93.3	–143.8

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 48, Part 2 (Washington, D.C., 1997).

Note: In the financial account, no sign in the balances indicates an excess of recorded inflows over outflows; a negative sign indicates an excess of recorded outflows. The data on liabilities constituting foreign authorities' reserves were derived from information collected by the Fund from a sample of large reserve-holding countries. These data were used to adjust portfolio and other investment liabilities to better align the data with the corresponding asset series.

stat believes this gap largely reflects an underestimation of intra-EU imports. There are, of course, many other factors contributing to the discrepancies in goods transactions. One area being investigated by the Committee is "shuttle trade," which is an important phenomenon in a number of countries in Europe and in the Baltics, Russia, and other former countries of the Soviet Union.

The small overall discrepancy in international services transactions also masks offsetting discrepancies in the underlying components. With respect to the recording of transportation transactions, which shows the largest discrepancies, the global data show that recorded debits exceeded credits by $70 billion in 1996. All other services transactions combined show a similar discrepancy but in the opposite direction (credits exceed debits). In its work program, the Committee is taking a close interest in the measurement and presentation of trade in services data.

The imbalance in the recording of current transfers has been relatively stable over 1990–96, averaging about $40 billion a year, with debits exceeding credits. As part of the Committee's work program, the Fund, in collaboration with the OECD, plans to investigate whether information produced by the OECD in connection with the work of its Development Assistance Committee can be used by countries to improve the balance of payments data on official aid disbursements.

Global Capital and Financial Accounts

The overall imbalance in the capital account, comprising capital transfers and acquisitions/disposals of nonproduced, nonfinancial assets, amounted to $20 billion in 1996 (see Table 2). There are known to be classification problems in the recording of capital transfers and current transfers because not all countries have as yet implemented the *BPM5* classification.

In the global financial account, recorded financial inflows (liabilities) persistently exceed recorded outflows (assets); in 1996 the imbalance amounted to $165 billion. Among the components of the financial account, portfolio investment transactions showed an especially large discrepancy in 1996. This discrepancy, at $227 billion (credits exceed debits), relates mostly to the recording of cross-border transactions in bonds and notes. Since the beginning of 1990, the global balance of payments statistics have registered some $700 billion more in bond liabilities than in the counterpart flow measures for bond assets.

The Committee, in its work plan, targeted portfolio investment flows and positions as a top priority area. Work on the 1997 Coordinated Portfolio Investment Survey is well advanced, and some preliminary data on cross-border holdings of foreign bonds and equities are expected to be available in late 1998 from many of the countries participating in this international initiative. It is hoped that the benefits arising from the Coordinated Survey will be seen in transactions data through the spread of best practices among countries, implementation of more consistent methodological approaches across countries, and the investigation of potential new data sources. The Committee's work on financial derivatives has led to revised international statistical standards, which will improve the analytical usefulness of data in this area.

The global discrepancies in direct investment transactions are not large. Among the standard components of direct investment, the reinvested earnings data show an excess of recorded debits—the investor countries recorded higher reinvested earnings than were recorded by the host economies that received the investment. The discrepancy amounted to $63 billion in 1996. At present, some 75 countries report data on reinvested earnings to the Fund. For other direct investment transactions—equity and intercompany debt—recorded inflows exceeded outflows by $76 billion, thus reducing the overall discrepancy on direct investment transactions. The net discrepancy on other direct investment capital registered a sharp increase in the last two years, rising from an average of $20 billion a year in 1990–94 to more than $70 billion in 1995 and 1996. The Committee supported a joint IMF/OECD survey to determine the extent of adoption by countries of international standards for foreign direct investment statistics, which will improve data comparability and permit a better understanding of asymmetries in these data that arise from different country recording practices.

For investment transactions other than direct and portfolio investment and reserve assets, the overall imbalance in recent years has also been quite small. By comparison, the discrepancy in the recording of these other financial inflows and outflows exceeded $150 billion in 1991. The Committee is greatly encouraged by the work of the Bank for International Settlements (BIS) in developing its international banking statistics to make these data more usable in balance of payments compilation, specifically with respect to data on deposit and loan transactions with foreign banks, which are important components of other investment transactions.

In producing the global aggregates, the Fund adjusts data for portfolio investment and other investment liabilities to take account of those liabilities whose counterpart assets are classified as reserve assets. The information to make such adjustments is derived from a confidential survey of the instrument composition of reserve assets in the major reserve-holding countries. The data compiled are used only at the global level. The Fund instituted this survey in response to a recommendation of the *Final Report of the Working Party on the Measurement of International Capital Flows* (*Godeaux Report*). Given that some significant reserve-holding countries do not report this information, the adjustments may be imprecise.

IV. Work Program Undertaken by the Committee—1997

The work undertaken by the Committee in 1997 reflected the priorities established in the medium-term work program at the end of 1996. The Committee's top priority was the continuing preparation for the 1997 Coordinated Portfolio Investment Survey. Also central to the Committee's work program was the methodological work relating to financial derivatives and to statistics on trade in goods and services. A joint IMF/OECD survey was conducted of the implementation of the recommendations in the international manuals for the measurement of direct investment. Among other works undertaken were reviews of the extent to which countries report balance of payments data to the Fund on the basis of the classification system of *BPM5*; of progress on the development of a securities database for purposes of the Coordinated Survey; and of progress on the project to enhance international banking statistics. In addition, the Committee commented on a range of discussion papers and received a report on the development of balance of payments statistics at the European level. The Committee also had an initial discussion on possible enhancements to the coverage of reserves and reserves-related data.

1997 Coordinated Portfolio Investment Survey

As reported in previous Committee annual reports, countries are planning to conduct, under the auspices of the Fund, a coordinated portfolio investment survey of the stock of assets in the form of cross-border equities and bonds in reference to year-end 1997 (the Coordinated Survey). This survey was recommended by the *Godeaux Report*. The potentially beneficial impact of this initiative is underscored by the unabatement of the large discrepancies in the global balance of payment statistics on portfolio investment capital flows and the difficulties that many countries have encountered in accurately recording the growing volume of cross-border activity in portfolio securities.

In 1994, the Committee set the following objectives for the Coordinated Survey:

- to improve the statistics on cross-border holdings of securities, as well as provide a check on the coverage of portfolio investment financial flows and associated investment income data; and
- to exchange data among participating countries (respecting confidentiality constraints) in order to improve countries' estimates of their external portfolio investment liabilities and associated financial flows and investment income data.

In June 1997, the IMF hosted a meeting of national compilers. In attendance were 37 compilers from 28 countries, along with representatives of the EMI and OECD. This was the second meeting of national compilers; the first was held in September 1996 (see the *1996 Annual Report*, page 6). National compilers from 33 countries attended either one or both of the meetings. The second meeting enabled compilers to share experiences and advice in implementing their national surveys and permitted the Fund to seek the views of compilers on various issues relating to the Fund's coordination of the project. The meeting revealed that most countries represented were making considerable progress: compilers were consulting potential respondents, developing survey forms and explanatory notes, and considering computer applications.

As at the first meeting, the degree of interaction and discussion among participants was notable. Bilateral contacts are being established through which knowledge is being exchanged. The wide range of subjects discussed included many covered in the *Survey Guide for the Coordinated Portfolio Investment* (*Survey Guide*):[2] managing relations with respondents in order to achieve the best possible results from the Survey; the problems of ensuring accurate country attribution of securities by country of issuer of the debtor; the coverage of securities issued by nonresidents and owned by the household sector; and avoiding double counting when securities held are involved in repurchase and securities lending agreements.

[2]The *Survey Guide*, published by the IMF in August 1996, was the result of the work of the Task Force that the Committee created in 1994 to draw up the detailed technical specifications for conducting the Survey. The work of the Task Force is covered in the 1995 and 1996 annual reports.

During 1997, countries participating in the Coordinated Survey provided the Fund with draft survey forms and explanatory notes, as well as reports on their progress in preparing for the Coordinated Survey. From the information provided and from the discussions at the meeting of national compilers, the Fund was able to inform the Committee that about 30 countries—including virtually all of the most important investing countries—had undertaken the preparatory work necessary to conduct the Coordinated Survey and that it appeared as though most countries would be closely following the methodological guidelines set out in the *Survey Guide*.

The Committee, while welcoming the evidence of strong participation, focused on the potential gaps in the Coordinated Survey results owing to the nonparticipation of a few important investing countries. The Committee recommended that the Fund investigate methods of closing these gaps, using available information as far as possible. Also, the Committee supported the Fund's proposal to approach, in a separate but related exercise, major reserve-holding countries for information on securities held as foreign exchange reserve assets; this information is necessary to produce a comprehensive picture of portfolio investment liabilities, a key objective of the Coordinated Survey.

The Committee also considered the modalities of exchanging the results of the Coordinated Survey. It was agreed that provisional results would be sent to participating countries for review and that it would be appropriate for national compilers to meet again, around the end of 1998, to discuss and review these initial results and to discuss the lessons from the Coordinated Survey. Also, the Committee agreed that the Fund should publish the full results of the Coordinated Survey when they become available, probably toward the end of 1999.

Financial Derivatives

Almost since its inception, the Committee has discussed the conceptual framework for the measurement of financial derivatives, including the recommended international standards set out in the *1993 SNA* and the *BPM5*. In 1994, after discussing papers from the Australian Bureau of Statistics and the Bank of England, the Committee established a small expert group to investigate the treatment of interest rate swaps and forward rate agreements. The results of this group's work led the Committee to recommend the establishment of the Informal Group on the Measurement of Financial Derivatives. This group met in April 1996, and among its members were experts in national accounts, balance of payments, and monetary and financial statistics, as well as representatives from the U.S. Financial Accounting Standards Board and the Fund's Research Department. Work arising from this group's meeting was presented to the Committee meeting of October 1996 and to the meeting of the Expert Group on Monetary and Financial Statistics that was held in November 1996 in conjunction with the finalization of the IMF's *MMFS*.

In 1997, the work of reviewing the international standards for the measurement of financial derivatives activity came to fruition. Drawing together the research conducted during 1994–96, along with the emerging international consensus, the Fund produced a comprehensive discussion paper, *The Statistical Measurement of Financial Derivatives*. The intention of the paper was to clarify and amplify the text of the *1993 SNA* and the *BPM5*. The paper did not challenge the key recommendations contained in the *1993 SNA* and the *BPM5*: that financial derivatives should be treated as financial assets and that transactions in them should, in general, be treated as separate transactions rather than as integral parts of the value of underlying transactions or financial assets to which they may be linked as hedges. Nonetheless, the paper did make two significant proposals for change:

- first, a less restrictive view than in the *1993 SNA* should be taken about which financial derivative contracts fall within the existing *SNA* asset boundary, in effect allowing for the inclusion of more over-the-counter (or nonexchange-traded) financial derivative contracts; and related to this,
- interest rate swaps and forward rate agreements should be recognized as financial assets, and net cash settlement payments in these contracts should be classified as financial transactions rather than as property income flows as recommended in the *1993 SNA* (*1993 SNA*, paragraphs 11.37 and 11.43).

In April, the discussion paper was sent to Committee members and economic statisticians in all IMF member countries. The comments received indicated overwhelming agreement on the major issues raised in the discussion paper. The agreement was such that a planned second meeting of the Informal Group was canceled. In September, the discussion paper was revised to reflect the comments received and was sent to members of the ISWGNA and to the Committee for approval. At their respective October meetings, the ISWGNA and the Committee agreed to incorporate the main clarifications and changes proposed in the paper into the texts of the *1993 SNA* and the *BPM5*, respectively. Following these meetings, the IMF produced a final version of the paper that was circulated to economic statisticians; this paper provides the new international standards for the statistical measurement of financial derivatives. The main clarifications and changes to the text of the *1993 SNA* and the *BPM5* that it introduces are set out in Box 2. Also, the Fund has begun preparing draft revised text of the *1993 SNA* and the *BPM5*. The revised text will be approved by the ISWGNA and the Committee, respectively, before dispatch to IMF member countries.

At its October meeting, the Committee also discussed the implementation of the new international standards for the reporting of financial derivatives data. Questions concerned classifying financial derivatives in the balance of payments presentation; making the necessary changes to the *BPM5*; and collecting data and reporting by individual countries.

There were divergent views as to whether derivatives should be classified as a separate functional category. Emphasizing the difficulties of measurement, some members cautioned against moving quickly from concept to measurement. The Committee saw the need for further thought and consultation on these issues as more countries implement collections.

The Committee heard reports from the EMI and the BIS on work on financial derivatives being conducted under their auspices. The EMI's work on financial derivatives is fully in line with the conceptual treatment set out in *The Statistical Measurement of Financial Derivatives*. A small group in the EMI has been established to consider the implementation of these revised international standards. The BIS has two surveys on financial derivatives planned for 1998. In June, a new regular semiannual consolidated reporting of amounts outstanding in the over-the-counter derivatives markets will begin by approximately 80 financial institutions in the Group of Ten (G-10) industrial countries. In addition, in April and June, the regular triennial central bank survey of foreign exchange and derivatives market activity will be conducted in approximately 40 countries, as compared with 26 countries in 1995. The survey will collect data on foreign exchange and over-the-counter derivatives turnover on a locational basis in all participating countries (April) and data on amounts outstanding of over-the-counter derivatives on a consolidated basis from countries and financial institutions that will not be participating in the new semiannual survey (June).

Trade in Services

The global agreement, negotiated earlier in the decade, and the growth in trade in services activity have focused increasing interest on both the measurement and the analytical presentation of trade in services data. The *BPM5* introduced a more detailed classification of trade in services data into the balance of payments standard components, and this classification has been further disaggregated in the joint OECD/Eurostat trade in services classification. To ensure consistency of approach by international agencies in their requests for trade in services data, an interagency task force was established by the United Nations Statistical Commission in 1994, which is chaired by the OECD and involves Eurostat, the IMF, UNCTAD, the UN's Statistical Division (UNSD), the World Bank, and the WTO. This interagency task force is sponsoring the development of a manual on international trade in services statistics (ITISS), which is scheduled to be completed in 1999.

At its meeting in October 1997, the Committee received a presentation from a representative of the WTO on its need for statistics in this field. The WTO representative made clear that in monitoring trade in services activity, the WTO is interested in information on services provided through four different modes of supply.[3] For its data requirements, the WTO, where possible, will work with other international agencies in developing existing classification systems rather than developing its own. In this regard, the WTO believes that full implementation by countries of the trade in services subclassification included in the *BPM5*, supplemented by the further joint OECD/Eurostat disaggregation, would be a major step forward in its monitoring of trade in services activity. The Committee welcomed the WTO's willingness to work with other agencies rather than create new requirements and, more generally, also welcomed the evidence of interagency cooperation through the work of the interagency task force. The Committee views the harmonization of concepts and development of links between related fields of statistics as important, not least to help reduce respondent burden and the duplication of effort in statistical agencies.

The Committee was also presented with the work of Statistics Canada to link the *BPM5* trade in services categories with the categories of the WTO. This work is closely related to other work initiated by Statistics Canada and the UNSD to link the *BPM5* classification with the revised version 1.0 of the Central Product Classification System (CPC).[4] This project, which the Fund will take over in 1998, will be used to help define services in the ITISS manual and to update Appendix III of the *BPM5*, which presently shows the links between *BPM5* services items and the previous version of the CPC. The plan focuses attention on the differences between the related classification systems, which is as important as demonstrating the links between related classification systems. Some on the Committee encouraged the idea that, in the long term, the balance of payments services classification should be fully aligned with the CPC, so as to ensure complete correspondence between the external and domestic classification systems for services, although it was recognized that some existing balance of payments requirements, such as travel, would likely always remain of interest to balance of payments analysts even though they are not in the CPC.

The Committee received and discussed papers from Canada, Italy, and the United Kingdom on work on implementing the international standards for the measurement of trade in services in their respective countries.

Trade in Goods

In 1996, in advance of a meeting convened by the United Nations to revise the *Manual on International Merchandise Trade Statistics, Concepts and Definitions* (*Trade Manual*), a representative from the UNSD briefed the Committee on the proposed revisions and gave members the opportunity to comment. In 1997, the Committee was updated on developments. The work on the *Trade Manual* is nearing completion and is expected to be released in early 1998. Following this publication, the UNSD intends to produce a companion handbook on compilation practices. While the *Trade Manual* moves toward harmonization with the concepts contained in the *BPM5*, differences remain, not least because most trade statistics tend to be based on the physical movement of goods across customs borders, and this approach does not necessarily correspond with the change in ownership principle underlying *BPM5*.

More generally, the growth in the global asymmetry in trade in goods statistics over recent years has led the Committee to give greater prominence in its work program to this field of statistics. In this regard, in 1996 the Committee received a report on the work being undertaken in Europe to further improve the trade reporting system—Intrastat. Intrastat was introduced in 1993 to replace customs-based data when customs barriers were removed as part of the single European market project. There were some problems in introducing the new system, and this might help explain the growth of the global asymmetry in the years immediately following its introduction.

In 1997, the Committee focused its attention on the increasing value of goods purchased abroad by travelers for

[3]These four modes are the "cross-border supply" of services between nonresidents; "consumption abroad"—services delivered outside the territory of residence of the consumer, mainly travel expenditure; "commercial presence"—services provided through any type of business or professional establishment owned or controlled by nonresidents, essentially activity related to direct investment; and the "presence of natural persons"—essentially those who travel to foreign markets to supply services.

[4]A UN framework for international comparison of various kinds of statistics dealing with goods, services, and assets.

Box 2. New International Standards for Financial Derivatives

In November 1997, the Fund sent a copy of *The Statistical Measurement of Financial Derivatives* to economic statisticians in all IMF member countries. This comprehensive document sets out the new international standards for the measurement of activity in financial derivatives. These standards were approved in October 1997 by the Inter-Secretariat Working Group on National Accounts and the IMF Committee on Balance of Payments Statistics. This box provides a short summary of the most important clarifications and changes that the paper introduces to the standards set out in the *1993 System of National Accounts* (*1993 SNA*) and the fifth edition of the IMF's *Balance of Payments Manual* (*BPM5*).

The paper was the product of work arising from the meeting of the Informal Group on the Measurement of Financial Derivatives (Informal Group) that was held in Washington in April 1996, various meetings of the IMF Committee on Balance of Payments Statistics, and the Expert Group meeting held in November 1996 in conjunction with the finalization of the IMF's *Manual on Monetary and Financial Statistics* (*MMFS*). A preliminary draft of the paper was sent to statisticians in IMF member countries, and many statisticians provided useful comments.

The paper includes four chapters, four appendices, and a glossary of terms used in the text. The four chapters provide a detailed explanation of the conceptual framework for measuring financial derivatives activity in the national accounts; an explanation of how to treat some of the most common over-the-counter forward-type contracts, such as interest rate and foreign currency contracts; an explanation of the treatment of margin payments; and a discussion on the classification of financial derivatives in the national accounts and balance of payments.

In many respects, the key recommendations contained in the *1993 SNA* and *BPM5* remain unchanged in the new international standards. The view is still that financial derivatives should be treated as financial assets and that transactions in them should, in general, be treated as separate transactions, rather than as integral parts of the value of underlying transactions or financial assets to which they may be linked as hedges. A consensus emerged among statisticians that a wider range of financial derivative instruments than was explicitly covered in the *1993 SNA* and *BPM5*–-especially over-the-counter forward-type contracts—should be regarded as financial assets. In practice, to reflect the growing consensus view without opening up the financial asset boundary to financial arrangements that are generally accepted as not being financial assets, the paper includes a more specific description of financial derivatives than appears in the international manuals. It is as follows:

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes, including risk management, hedging, arbitrage between markets, and speculation.

The description makes no distinction between on- and off-exchange "traded" financial derivative instruments. Consequently, the paper concludes that

Financial derivatives, as described above, should be included in the national accounts as financial assets, regardless of whether "trading" occurs on or off exchange. If the financial derivative cannot be valued because a prevailing market price for the underlying item is not observable, it cannot be regarded as a financial asset.

It is important to note that in the absence of an observable price for the underlying item, the "financial derivative" cannot be valued, cannot be regarded as a store of value, and so cannot be regarded as a financial asset. Only instruments that have a demonstrable value can be regarded as financial assets in the *1993 SNA*.

resale in their home countries and purchases of goods in their home countries for resale abroad—"shuttle trade." Committee members from Germany and Russia reported on the conceptual and practical issues that have arisen. From a conceptual viewpoint, the Committee identified a number of issues. First, the distinction between trade in goods and travel services can become blurred. While the *BPM5* clearly defines *trade in goods* as involving commercial activity and *travel services* as involving the acquisition of goods and services by travelers for personal use, a number of borderline activities that are hard to classify have become increasingly important. For instance, how should compilers classify goods acquired by travelers in bulk for friends and relatives for which they are fully or partially compensated? In addition, some members of the Committee raised concerns over the analytical usefulness of travel services data that include a significant number of goods that have been acquired by travelers during very short stays in a foreign economy—"border trade." For instance, when prices of goods on one side of

Some of the most important over-the-counter forward-type contracts in terms of market activity are interest rate swaps and forward rate agreements. In both the *1993 SNA* and the *BPM5*, it is recommended that net cash settlement payments associated with these instruments be recorded in the income/current account as property income. Many statisticians questioned this treatment, because of the nature of the use of these instruments in the market and because, in the *1993 SNA*, property income is defined as "income receivable by the owner of a financial asset in return for providing funds to another institutional unit" (paragraph 7.88), and neither interest rate swaps nor forward rate agreements are associated with the provision of capital from one counterparty to another. For these and other reasons, the paper concludes that

Interest rate swaps and forward rate agreements should be classified as financial assets, and net cash settlement payments in these financial derivatives should be classified as financial account transactions rather than as interest. This change will affect recorded interest in the national accounts and hence will have implications for national income.

Also, many statisticians felt that the reasons advanced above for classifying net cash settlement payments on interest rate swaps in the financial account apply equally to net cash settlement payments on the interest element of cross-currency interest rate swaps. So the paper concludes that

Net cash settlement payments on the interest element of cross-currency interest rate swaps should be classified as financial account transactions.

There had been some uncertainty among statisticians as to the measurement in the national accounts of transactions in financial derivatives that are associated with the delivery of an underlying asset. In comments received, most statisticians stated that if a financial derivative is recognized as a financial asset, its exercise is a transaction that should be recorded as such even if the underlying asset is delivered. So, while it is recognized that there could be practical difficulties in implementing this conceptual treatment, the paper concludes that

A transaction in an asset underlying a financial derivative contract that goes to delivery should be recorded at the prevailing market price for the asset with the difference between the prevailing price and the price actually paid (times quantity) recorded as a transaction in financial derivatives.

Also, it is evident from the paper that financial derivatives are different in nature from other financial assets, including portfolio investments: they neither raise capital nor accrue interest, and they encompass both traded and nontraded instruments. Consequently, financial derivatives do not naturally fall into the existing national accounts and balance of payments categories. The paper concludes that

Financial derivatives should be recognized as a separate instrument category of financial assets in the national accounts and as a separate functional group in the balance of payments reflecting their distinct characteristics.[1]

Nonetheless, because many countries are still developing systems to capture financial derivative activity, and the practical implications of such a change to the international reporting standards need to be carefully considered, the paper also concludes that

The practical implications of this change need to be considered before it is implemented into the international reporting standards for balance of payments.

[1]In the balance of payments, depending on the nature of the transactors, financial derivative transactions and positions could be included under "reserve assets"—if a monetary authority owns or transacts in financial derivative assets, and the assets meet the criteria of a reserve asset—or "direct investment"—if the transactors are in a direct investment relationship, and they are not banks/financial intermediaries.

a border are particularly attractive relative to the other side of the border, there may be many repeated journeys, lasting a few hours or less, by residents of one economy across the border simply to acquire goods at a cheaper price. Committee members noted that these relative price differences can appear and disappear quickly. Also, there was concern over the recording as travel services expenditure on "big ticket" goods, such as motor cars, that are acquired by travelers whose sole purpose in traveling is to acquire that particular good.

From a practical reporting viewpoint, the growth of both "shuttle" and "border" trade has created many difficulties for compilers. First, there is the problem of capturing the activity—both the expenditure on goods and its financing—in aggregate. It is not uncommon for a considerable amount of the activity to be conducted in currency notes rather than through other means of payments. If the activity is conducted in domestic currency notes, then some evidence of the financing side of the transactions may become available from the banking system: for instance, nonresidents may exchange foreign currency notes for domestic currency notes or vice versa at domestic banks or foreign exchange offices, although clearly not all foreign currency note conversion can be attributed to "shuttle" and "border" trade activity. However, if trade is conducted in foreign currency notes—both buyers and sellers accept, say, a third currency—then very little information on its scale may be available. Even if "shuttle" and "border" trade activity is captured in aggregate, there are problems in deciding upon the classification of the expenditure within the balance of payments: travelers are frequently reluctant to provide information on this activity. One approach, taken in Russia, is to draw upon all available information sources and to reconcile, as far as possible, the information included in the balance of payments with that included in the national accounts for domestic consumption expenditure.

The Committee concluded that this subject was of sufficient importance for further work to be undertaken. It was agreed that, for the next meeting in October 1998, the Fund would produce a paper setting out the appropriate conceptual approaches—although the Committee agreed that the principles contained in the *BPM5* and in the *1993 SNA* do not need revision—and presenting information on the practical reporting problems raised and how they are being tackled in different countries.

Reserve Assets and Reserves-Related Data

Developments in financial markets in the third quarter of 1997, particularly in Asia, raised interest at the international level in reserves and reserves-related data. In the *BPM5*, reserve assets are defined and are included in the classification system that form the basis of the international reporting requirements to the Fund. However, reserves-related data are not defined nor included in the classification system, although the analytical presentation of the balance of payments does cover the reporting of exceptional financing activity—arrangements made by the authorities (or other sectors fostered by the authorities) of an economy to finance a balance of payments need.

At its meeting in October 1997, the Committee had an initial discussion of possible enhancements of information on reserve assets and reserves-related data. The discussion highlighted the difficulties inherent in developing measures of reserves-related activity. Considerable differences of view were expressed. Some Committee members pointed to the sensitivities associated with these data, while others stressed the need to disseminate more information to enhance transparency. Work in the Fund on this issue continues, and it is expected that the technical expertise of the Committee shall be drawn upon.

The Fund provided a paper to the Committee on the treatment of repurchase and reverse repurchase agreements undertaken within reserve assets.[5] This paper was a summary of advice given by the IMF to two member countries earlier in the year. This complex technical issue is not explicitly covered in the *BPM5*. Following the incorporation of the Committee's comments, it is anticipated that the paper will be published in the IMF's *Balance of Payments Statistics* newsletter, and posted on the Committee's World Wide Web site.

Direct Investment

The Committee supported, at its October 1996 meeting, a joint Fund/OECD survey of Fund and OECD member countries to determine the extent of adoption by countries of the international standards for foreign direct investment (FDI) statistics.[6] Following consultation with the members of the Committee and the OECD's GFS over the design of the survey form, the IMF and OECD, in May 1997, launched the survey. The survey form was designed in a multiple-choice format to reduce, as much as possible, the time required by compilers to complete the form, while covering all the major issues regarding data sources, collection methods, and dissemination and methodological practices for FDI statistics.

In all, more than 110 countries replied to the survey, and the overall quality of the survey responses appears to be very good. The results of the survey are to be stored in a metadatabase that will provide standardized information on data sources, collection methods, and dissemination practices (e.g., availability, periodicity, timeliness, revision policy, breakdowns) for each member country that completed the survey form. Once completed, probably during the first half of 1998, the metadatabase should both indicate the extent to which national compilers have implemented the international standards and facilitate the exchange of bilateral information on compilation practices.

The Committee received a preliminary report on the findings emerging from the survey.[7] The results in the preliminary report were based on the survey returns of 39 of the largest 43 recipients, in value terms, on inward direct investment, and were compared with a survey conducted in 1991 for the *Godeaux Report* of 38 of the

[5]More generally, the Committee was informed that the *MMFS* will include a section on the treatment of repurchase agreements and securities lending.

[6]The international standards are set out in the *BPM5* and the third edition of the OECD's *Benchmark Definition of Foreign Direct Investment.*

[7]The preliminary report is available on the Committee's World Wide Web site.

largest recipients of FDI. The 1997 sample included 20 industrial countries, compared with an equal split of industrial and developing countries in 1991.

In general, the preliminary report indicated increasing adherence among countries to the international standards, although not in all respects. Most notably, the preliminary report highlighted the following:

- The recommendation in the international standards that 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) establishes a direct investment relationship is becoming more commonly observed: 30 countries in 1997, compared with only 10 in 1991, reported that they apply this “rule.”
- The recording of reinvested earnings data is becoming more widespread, particularly among industrial countries: 15 industrial countries in 1997, against 8 in 1991, reported that they compile reinvested earnings data.
- The recording in direct investment of short-term financial flows between related enterprises is also becoming more widespread: 16 industrial countries and 10 developing countries reported in 1997 that they record short-term financial flows, compared with 10 industrial countries and few developing countries in 1991.
- Of the 23 sample countries that report the establishment of “Special Purpose Entities” in their economy, 21 include transactions of special purpose entities in their FDI statistics. This result should be weighted by the fact that many countries with large special purpose entity investments were not included in this preliminary analysis.
- There has been little or no improvement in the measurement of real estate investment compared with the practices described in the *Godeaux Report*. In 1997, 13 industrial countries reported covering real estate transactions by enterprises, and 11 reported covering such transactions by individuals.
- Only three industrial countries and one developing country record investment by affiliates in their parent companies in strict conformance with the recommendations of the international manuals.
- The *Godeaux Report* urged compilers to prepare and exchange geographical breakdowns of direct investment flows, following the method of geographical allocation recommended in the *BPM5*. In 1997, 17 industrial countries and 12 developing countries reported that they compile direct investment flows by country of inward investor.

The Committee welcomed indications of increasing compliance with international standards. Further, the Committee encouraged the Fund and the OECD to consider both developing links between the metadata and the actual data published by countries and developing some mechanism to keep these metadata current. It endorsed the idea that the IMF and the OECD produce a joint final report on the results of the survey to be distributed to members of the Committee and the GFS and to the member countries of both organizations.

The Committee received a report on work being undertaken in Chile to compile estimates for reinvested earnings on direct investment, which, inter alia, takes into consideration the limited resources available for this research and the lack of a legal basis to directly collect the necessary data.

Securities Database

As reported in previous annual reports of the Committee, the idea was raised in the early stages of preparation for the Coordinated Survey of developing a database of individual securities that included information on the country of residence of the issuer of each security. Such a database would help ensure the consistent and common classification of securities across countries participating in the Coordinated Survey. In 1995, discussions began with the Association of National Numbering Agencies (ANNA)—whose national members allocate a commercial code developed to facilitate the trading and settlement of international securities: the International Securities Identification Number (ISIN). The ANNA raised the possibility of opening its extensive security databases to statisticians. In 1996, the Committee decided to undertake a pilot project, with the Ufficio Italiano dei Cambi (UIC) generously offering to take the lead role and develop the nucleus of a database.

In April 1997, a database developed by the UIC was dispatched to national compilers for the Coordinated Survey so that they could review the securities listed as issued by their own residents and, if possible, add to the list. Many compilers undertook this task and reported back to the UIC via the Fund. By the time of the meeting of the Committee in October 1997, the UIC securities database contained 166,000 entries, most of which had been drawn from information available to national numbering agencies. Following the Committee meeting, more information from countries participating in the Coordinated Survey was received.

The pilot project was reviewed both by the national compilers at their meeting in June 1997 and by the Committee in October 1997. The consensus view was that to have developed such an extensive database in so short a time was a remarkable achievement for which the UIC deserved considerable thanks. While many countries had contributed to the work, some had not, because of a lack of resources and/or available information. Consequently, there were a number of gaps in the database. Also, while some countries were going to make immediate use of the database, others were not. Nonetheless, despite the short-term problems, many statisticians were convinced of the long-term benefits that a securities database could bring to the measurement of portfolio investment. The Committee decided that the project should continue through the 1997 Coordinated Survey, but no decision on its future thereafter was made.

Parallel work is being undertaken at the EMI on the development of a securities database. The EMI project is of a longer-term nature than that being undertaken by the IMF/UIC. EMI member countries have expressed strong support for the creation and implementation of a centralized database of individual securities, because such a database is regarded as the best tool for achieving harmonized and good-quality aggregate EU portfolio investment data. However, before implementation begins, various steps are required, including, by end-March 1998, an investigation of the benefits that might accrue from a securities database both for countries using an aggregate data collection system and for compilers of other economic data, such as money and banking statistics. The EMI agreed to keep the Committee informed of future developments.

Fifth Edition of the Balance of Payments Manual

In 1997, the Committee reviewed both the progress that countries were making in reporting balance of payments and international investment position data to the Fund on the basis of the classification system of *BPM5* and their use of electronic reporting. The progress is encouraging. For the 1997 *BOPSY*, 112 countries reported balance of payments data using the coding system of *BPM5*, while 84 countries reported to the Fund in electronic form. Reporting international investment position data on the basis of the *BPM5* is not as advanced; for the 1997 *BOPSY*, only 36 countries reported such data.

Among countries represented on the Committee, all are working toward converting, or have converted, their national balance of payments data in conformity with the concepts and principles of the *BPM5*. The Committee received a detailed report on the conversion in Canada. Also, some countries have undertaken the conversion of their balance of payments data into conformity with the *BPM5* in parallel with the conversion of their national accounts data to the concepts and principles of the *1993 SNA*. The EMI informed the Committee that its requirements for balance of payments data are virtually identical to those set out in the *BPM5*—both in terms of conceptual approach and presentation.

International Banking Statistics

The final reports of both IMF working parties urged countries to consult the international banking statistics as a potential data source for the compilation and verification of balance of payments estimates. These statistics provide information, broken down by sector and country of the counterparty, on the international financial assets and liabilities of banks in the major banking centers. These statistics can provide balance of payments statisticians with data on resident positions with banks abroad, that is, loans from and deposits with banks abroad, which are believed to be poorly measured in many countries.

As reported in previous annual reports, the BIS undertook in 1994 a pilot project to derive changes in banks' assets and liabilities excluding their holdings and own issues of long-term securities. This aligned the international banking statistics more closely with the balance of payments data for loans and deposits and thus facilitated their use in balance of payments compilation. At that time, only 3 of the 24 BIS reporting countries provided data that allowed cross-border loans to be separately identified without the need for estimation by the BIS. By end-1997, this number had risen to 14, and so the degree of estimation that is required to produce deposit and loan data has been significantly reduced. At their meeting in October 1997, the central bank statisticians who report to the BIS agreed that the BIS could publish the deposit and loan statistics for countries where data were available.

Work on improving the usefulness of the international banking statistics for balance of payments purposes continues. A number of countries that report to the BIS have indicated that they will refine their data or provide additional information in 1998.

Developments at the Regional Level

The EMI reported on progress toward compiling balance of payments financial and income accounts data for Stage III of the European Economic and Monetary Union (EMU). Having agreed in July 1996 on requirements for countries to report balance of payments statistics, the EMI, in 1997, emphasized work on implementation. In particular, attention was focused on the practical steps required for the construction of monthly, quarterly, and annual balance of payments and annual international investment position statements for the EMU area.

The United Kingdom reported on the work being undertaken under the auspices of Eurostat to develop estimates for financial intermediation services indirectly measured. Because of the difficulties in finding an acceptable methodology, member states will prepare these estimates over a four-year period and report them to Eurostat, after which Eurostat will prepare a report that will be the basis for a decision on the methodology to be used (to be adopted no later than end-2002).

The Committee was also kept abreast of the work of the Trade and Investment Data Review Working Group of the Asia-Pacific Economic Cooperation (APEC) economies. In 1997, this group proceeded with a project to establish databases on merchandise trade statistics, international trade in services statistics, and international investment data. The objective of the project is to minimize the discrepancies in these data among APEC member countries by improving their usefulness and comparability.

Balance of Payments Statistics *Newsletter*

The Fund's Statistics Department published two issues of the *Balance of Payments Statistics* newsletter in 1997, including articles contributed by both Fund staff and Committee members. The objective of the newsletter is to keep balance of payments compilers and users of these statistics informed of statistical developments and good statistical practice among member countries. Consequently, the newsletter gave particular emphasis to the establishment of the link between the Fund's Special Data Dissemination Standard and national sites that provide summary data. Also published were articles on Canada's approach to the recording of inward direct investment, the approach of the Netherlands to quality control of balance of payments statistics, Russia's and Germany's work on "shuttle trade," and recent balance of payments developments in the United States.

V. Future Work Program

Appendix III sets out in detail the medium-term work program agreed by the Committee in 1997. Subjects are ranked by priority. The rankings are not intended to reflect the absolute importance of each topic but rather to reflect the relative priority assigned to each topic by the Committee, given the limited time available for research and investigation.

As in previous years, a top priority subject for the Committee remains the preparation for the Coordinated Survey. The other top priority subject is the work to be coordinated in the Fund on investigating the conceptual and practical reporting issues raised by the growth of "shuttle" and "border" trade. The Fund will prepare a report for discussion at the Committee meeting in October 1998. While reserves are not covered explicitly in the medium-term work program, it is expected that the technical expertise of the Committee shall be drawn upon in the discussions surrounding the enhancement of the coverage of reserves and reserves-related data.

Work is ongoing with regard to the joint IMF/OECD survey of the implementation among countries of the international methodological standards for the measurement of direct investment, which is a high-priority subject. During 1998, the metadatabase will be completed, and the final report on the conduct of the survey and its results produced. Also, the Fund, in consultation with the OECD, will investigate the sources of information on official transfers. The accurate measurement of these transactions is of particular importance to many developing countries. The Committee will continue to be kept informed of the progress in producing an international manual on trade in services statistics. The Committee will also continue to monitor the implementation of the *BPM5* among IMF member countries.

The Committee will continue to be kept informed and take a close interest in work progressing under the auspices of other international agencies. In this regard, the Committee will receive reports from the EMI on its work to implement international guidelines on financial derivatives and accrued interest and generally on the progress toward compiling EMU balance of payments and international investment position data. The EMI will also report on its securities database project; the UIC will report on the outcome of the security database work for the Coordinated Survey. The BIS will report on its work on collecting financial derivatives data and on progress with the project to enhance international banking data for use in the balance of payments. The OECD will report on its work in producing an inventory of financial statistics information available to international organizations and contribute to a Fund report on purchasing-power-parity data.

Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 1997

Chairwoman

Carol S. Carson
IMF, Statistics Department

Members

Antonello Biagioli
Ufficio Italiano dei Cambi
Teresa Cornejo Black
Banco Central de Chile
Jean-Baptiste Bourguignon
Banque de France
Stuart Brown
Office for National Statistics, United Kingdom
Reiko Gonokami
Bank of Japan
Koichi Ishikura
Ministry of Finance, Japan
Ivan King[1]
Australian Bureau of Statistics
Pim Kramer
De Nederlandsche Bank N.V.
Stuart Kufeni
Reserve Bank of Zimbabwe
Lucie Laliberté
Statistics Canada
Dominique Nivat
Ministry of Finance, France
Neil Patterson
IMF, Statistics Department
Gerald A. Pollack
U.S. Department of Commerce
Rudolf Seiler
Deutsche Bundesbank
Sergei Sherbakov
Central Bank of Russia
Soon Teck Wong
Department of Statistics, Singapore

Representatives of International Organizations

Peter Bull
European Monetary Institute
Christina Kruse
European Monetary Institute
Peter Richardson
Organization for Economic Cooperation and Development
Jean-Claude Roman
Statistical Office of the European Communities
Rainer Widera[2]
Bank for International Settlements

Secretariat

Robert Heath
IMF, Statistics Department
John Motala
IMF, Statistics Department

[1]Succeeded Barbara Dunlop.

[2]Succeeded John Bispham.

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

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

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

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

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

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

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

Appendix 3
Medium-Term Work Program of the IMF Committee on Balance of Payments Statistics: End-December 1997

Subject	Issue	Action
Top Priority		
Coordinated Portfolio Investment Survey	The conduct of the year-end 1997 survey.	Fund report on the survey; on the collection of data on securities held as reserve assets; and, in consultation with the BIS, on the collection of additional information to fill the potential gaps in the reported data. Presentation of the draft agenda for the national compilers' meeting.
Merchandise Trade Statistics	Measurement of international trade in goods statistics.	Fund paper on conceptual and practical reporting issues arising from "shuttle" and "border" trade.
High Priority		
Direct Investment	Extent of implementation of *BPM5* and exchange of experiences in compiling these data.	Final report on the Fund/OECD survey in 1997 of the implementation of methodological standards for direct investment. Paper from France on reinvested earnings.
Trade in Services Statistics	Conceptual framework/classification.	Report on developments with the manual on international trade in services statistics; report on linkages between balance of payments and central product classifications.
Implementation of the *BPM5*	Update on implementation.	Update of IMF paper on *BPM5* reporting to the Fund. Paper from Japan on new forex regulations and balance of payments; and a paper from the U.K. on *BPM5* implementation.
Capital and Current Transfers	Growing asymmetries in global data.	A Fund investigation, in consultation with OECD, of the sources of information on official transfers.
Medium Priority		
Securities Database	Development of statistical database.	Progress reports from Italy and EMI.
International Investment Position	Development of international investment position statistics.	Progress report from EMI.
Financial Derivatives	Implementation of new standards; coordination with work at the BIS and the EMI.	Reports from the BIS, EMI, the U.K., and Australia.
International Banking Statistics	Use and improvement of international banking statistics.	Progress report from BIS.
Accrued Interest	Practical application of *BPM5* recommendations, and clarification of the concept.	EMI paper on practical implementation. Possible IMF paper on the concept.
Low Priority		
Data Dissemination Standards	IMF data dissemination standards.	IMF verbal report to the Committee.
Inventory on Financial Statistics	Information available on financial statistics in international organizations.	Paper from OECD.
Regional Issues	Developments in balance of payments statistics at the regional level.	Papers from EMI, and from Japan on statistical developments in APEC.
Deflators	Information about purchasing-power-parity data. Coordination with work of OECD.	Fund report, reflecting consultation with OECD.
Bilateral Comparisons	Bilateral comparisons of data, with particular emphasis on bilateral asymmetries in direct investment.	Will be covered in a section of the final report on the Fund/OECD survey of the implementation of methodological standards for direct investment.