Macroeconomic Statistics Essential to Fund’s Surveillance Function

The Interim Committee of the Board of Governors of the International Monetary Fund, on April 26, 1995, issued a communique specifying major issues on which the Fund will focus in the near term. Among these issues, the Fund will increase the priority it attaches to securing data to fulfill its role in exercising surveillance over countries’ economic policies and the global economy.

The Fund is entrusted with oversight of the international monetary system. It fulfills this role by providing a forum for member countries to consult and examine matters of global economic interest, as well as the economic policies of individual countries. Central to the purposes and operations of the Fund is its mandate under its Articles of Agreement to “exercise firm surveillance over the exchange rate policies of countries” and to adopt “specific principles for the guidance of all members with respect to those policies.”

The Principles of Surveillance adopted by the Fund in 1977 note that the assessment of a member’s exchange rate policies “shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments.” The Executive Board of the Fund performs a biannual review of surveillance as a regular part of the Fund’s activities.

Reliable macroeconomic statistics, therefore, are critical to the Fund’s surveillance function, whether at the global, regional, or national level. Comprehensive data are essential for analysis of national economic policies and assessment of global economic developments. Data deficiencies, in even a single member country, could detract from the Fund’s ability to detect an emerging crisis. This could have major adverse consequences for the quality of Fund advice provided in the surveillance process for the member concerned and potentially for the international monetary system as a whole.

Under Article VIII, Section 5 and Article IV, Section 3(b) of the Articles of Agreement of the Fund, member countries are required to provide their economic and financial data to the Fund to enable it to carry out its surveillance function. The availability of useful data for the Fund’s surveillance function, however, depends largely on the willingness and ability of member countries to provide timely, accurate, and comprehensive data. The rest of this article briefly describes the Fund’s surveillance function and continued on page 3.
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IMF Balance of Payments Statistics Newsletter • Volume III, Number 1 • June 1995

The IMF Balance of Payments Statistics newsletter is published twice a year by the Statistics Department of the International Monetary Fund. The purpose of the newsletter is to inform balance of payments data compilers and users about national and international developments in the collection of such data. Editions are published in English, French, Spanish, and Russian. The opinions and material contained in this newsletter do not necessarily reflect the official views of the Fund. Draft submissions are welcome and should be addressed to Anne Y. Kester, Editor, IMF Balance of Payments Statistics Newsletter, Balance of Payments and External Debt Division II, Statistics Department, Room IS5-300, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-7922 • Fax: (202) 623-8017. Graphic design for this newsletter is provided by Isabelle Grohol.
how the Fund’s Statistics Department works with member countries to produce high quality and timely macroeconomic data for their policymaking purposes and for their reporting to the Fund. It also highlights the data issues that the Fund will emphasize in carrying out its surveillance function.

The Fund’s Surveillance Function

The Fund carries out its surveillance responsibilities in two major ways. The first is through regular – usually annual – consultations with individual member countries. These are known as Article IV consultations because they are mandated by Article IV of the Fund Articles of Agreement. The second way is through broader discussions in the Executive Board of the interaction of national economic policies, the most important of such discussions being the semi-annual World Economic Outlook reviews.

All members have an obligation to consult with the Fund under Article IV. These consultations involve a systematic review of economic developments and policies in the member country concerned and of how these policies have affected its exchange rate and balance of payments. Relevant structural policies are also examined if these are germane to macroeconomic developments and policies. Article IV consultations conclude with a summing up expressing the Fund’s judgment of the member’s exchange rate policies and their international repercussions.

The World Economic Outlook discussions and other discussions of various aspects of the world economy provide the Fund with a framework for reviewing members’ policies in a multilateral context. They make possible a systemic monitoring and analysis of the global economic situation and an assessment of prospects for the international economy under various policy assumptions.

The overall objective of the Fund’s surveillance of the global monetary system is to promote balanced growth of world trade and an orderly and stable system of exchange rates. In this context, the Fund aims to identify national and international issues and problems in a timely manner so that suitable corrective measures can be adopted and, in this way, periods of economic stress can be minimized. At the individual country level, the Fund encourages members to adopt appropriate economic policies consistent with their obligations under the Articles of Agreement – taking proper account of the views of the international community – so as to provide the basis for sustainable noninflationary economic growth.

The momentous changes that have taken place in the world economy over the past few years have made it particularly critical for the Fund to carry out its surveillance responsibilities in an effective manner. Noteworthy among these developments has been the rapid growth of cross-border flows and globalization of capital markets. This development has made the international monetary system more vulnerable to macroeconomic imbalances among industrial countries and to any inconsistencies that may develop between exchange rates and macroeconomic fundamentals. Second, there have been significant moves toward regional and monetary integration in Europe and elsewhere in the world. Third, a
number of countries have made considerable progress toward both current and capital account convertibility and market-oriented reform. These unprecedented changes are bringing the world’s monetary system into a new era presenting with opportunities and challenges heretofore unknown.

Role of the Fund’s Statistics Department

The Fund’s Statistics Department has been engaging in a number of activities intended to advance the effectiveness of the Fund’s surveillance. These include efforts to promote technical assistance and training to assist countries to improve their statistical compilation. They also involve steps to enhance the coverage and currentness of the Fund’s statistical publications, to upgrade the technology of the Fund’s database systems, and to strengthen the coordination of statistical activities within the Fund. Similarly, the Fund is seeking to enhance cooperation with others on developing statistical methodologies.

In addition to balance of payments data, the Statistics Department collects from member countries data on other sectors of their economies, including money and banking, government finance, prices, and other domestic economic activities. The Fund’s Executive Board has the responsibility to determine the information requirements for the effective conduct of surveillance and for overseeing each member’s compliance with these requirements.

In individual cases, where data needed for effective Fund surveillance are not forthcoming, the Fund will attempt to determine whether the country is unable to produce them. Under such circumstances, the provision of technical assistance and training will be considered within the resource limitations of the Fund. If, however, the authorities are hesitant to release required data that are available, the Fund will approach the authorities concerned with assistance from its Executive Board. The Fund’s consultation reports may also highlight cases where data are not forthcoming, as required for the Fund’s operational needs.

The Fund’s Statistics Department disseminates certain information reported to it by member countries through its publications. These include the monthly International Financial Statistics (IFS) and Direction of Trade Statistics (DOTS), and the annual Balance of Payments Statistics Yearbook and Government Finance Statistics Yearbook. These publications show data on Fund member countries on an internationally comparable basis, utilizing international standards that the Fund’s Statistics Department staff has played a predominant role in developing. The publication of these data improves international awareness of developments in Fund member countries and facilitates donor and bilateral lending agencies’ understanding of selected developing countries.

Better Data Needed to Strengthen Surveillance

The communique that the Fund’s Interim Committee issued in late April appeared against the backdrop of the financial crisis in Mexico. That crisis highlighted the need for the Fund to strengthen its surveillance over members’ economic policies. In this connection, the Interim Committee recommended that action be taken in the following areas, of all which necessitate heightened attention to statistical issues in the Fund’s work:
• To strengthen the Fund’s analysis and to ensure that it provides candid recommendations to members concerning the possible risks attached to policies they may follow, the Interim Committee encouraged the Fund to establish a closer and more continuous policy dialogue with member countries. Continuity of surveillance, in turn, requires regular and timely provision by all members of economic data to the Fund, thereby enabling it to identify potential difficulties at an early stage.

• The Interim Committee also emphasized the timely publication by members of comprehensive data in order to give greater transparency to their economic policies. It called upon the Fund to establish standards to guide members in disseminating data to the public.

• The Interim Committee endorsed the Fund’s Executive Board report on strengthening surveillance. This report calls for Fund staff reports on Article IV consultations to pay increased attention to the quality and timeliness of countries’ economic statistics and to draw the attention of the Board to cases where deficiencies in data quality and lack of timely reporting are hampering effective surveillance.

The Fund’s Executive Board recognizes that the full range of data needed for the Fund’s surveillance function is determined on the basis of the circumstances of individual countries. Nonetheless, it notes that there is a basic set of data countries must provide on a timely basis for the Fund to assess economic conditions of countries. These include data on exchange rates, international reserves, reserve or base money, broad money, interest rates, the consumer price index, exports and imports, the external current account balance, the overall fiscal balance, and the gross national product or gross domestic product.

• In response to the increasing liberalization of capital flows in many countries and the rapid expansion and globalization of capital markets, the Interim Committee urged the Fund to pay closer attention to developments in global capital markets. This, in turn, requires that members on a more frequent basis provide to the Fund timely and accurate information on their financial sectors and capital flows. The Interim Committee noted the Fund’s intention to make greater use of financial market data to supplement information from official sources, where necessary. For example, to better monitor exchange market transactions, international portfolio investment flows, and their prices, there is need to supplement traditional macroeconomic statistics on international reserves with data on countries’ forward positions and interventions in the spot and forward markets.

• Reflecting the increase in economic decision-making at regional and supranational levels—for example, on trade policy within the European Union—the Interim Committee proposed that the Fund devote more attention to regional surveillance and sharpen its focus on the spill-over effects of domestic economic policies. This, in turn, calls for Fund members to compile and present their country data on an internationally comparable basis and in accordance with internationally accepted methodological guidelines.
In sum, the effectiveness of the Fund’s surveillance role relies on the availability of reliable macroeconomic data for sound analysis of economic policies and developments. The Interim Committee has urged member countries to provide high quality macroeconomic data to the Fund on a regular and timely basis. Timely, accurate, and comprehensive data provided by member countries are crucial for the Fund to develop a solid information base for assessment of global economic developments and guide the formulation of consistent national policies that promote sustained economic growth in countries and global financial stability.

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1 The Interim Committee was established in October 1974 to advice the Board of Governors of the IMF on supervising the management and adaptation of the international monetary system as well as dealing with disturbances that might threaten the system. The Committee, whose members are Governors of the IMF, Ministers, or others of comparable rank, reflects the composition of the IMF’s Executive Board: each member country that appoints, and each group that elects, an Executive Director, appoints a member of the Committee, which currently has 24 members.

2 The Executive Board is the Fund’s permanent decision-making body, currently composed of 24 directors appointed or elected by member countries or by groups of countries.

3 In addition, other functional departments of the Fund devote considerable resources to statistical activities during technical assistance missions and in the development of databases in their areas of specialization. The Fund’s area departments also allocate an appreciable proportion of Article IV consultation work to data collection and preparation. Furthermore, desk economists manage their country databases throughout the year.

4 Member countries and international organizations also provide to the Fund confidential information. Such data are maintained in strict confidence within the Fund.
IMF Committee on Balance of Payments Statistics Pursuing Several Major Projects

Since its inception in late 1992, the IMF Committee on Balance of Payments Statistics has been working to improve international balance of payments statistics. At its sixth meeting, held at the Fund’s headquarters in Washington on March 30-31, 1995, the Committee reported on the progress it has made on several major projects.

One such effort of the Committee is to prepare for a coordinated survey of cross-border portfolio investment of major industrial countries. The survey is to collect comprehensive information, with geographical detail, on individual countries’ holdings of cross-border equities and long-term bonds and notes. It is planned for the year ending December 31, 1997.

The survey will be the first of its type ever conducted. Countries participating will adopt common concepts, definitions, and classifications. This will facilitate a comparison and exchange of data collected.

Data obtained from this survey will support the compilation of international investment position statistics of participating countries. They might also be used to evaluate the completeness of information on portfolio investment transactions and associated investment income recorded in balance of payments accounts. In addition, through the collection of information on the geographic distribution of portfolio investment holdings, the survey will permit data to be compiled on the holders of the securities (stocks and bonds) issued by the participating countries.

At the request of the Committee, the Fund’s Statistics Department has established the Task Force on Coordinated Portfolio Investment Survey to develop a common set of concepts, definitions, and classifications to be employed in the survey and to provide participating countries with the necessary instructions to assist them to conduct the survey. Members of the Task Force are from major industrial countries and international organizations. The Task Force plans to complete its work by the end of March 1996.

The Committee has also asked the Fund’s Statistics Department to manage the survey process. This entails, among other things, enlisting countries to join in the survey (perhaps about 25 to 30 of them).

Other significant work of the Committee is intended to assist countries to implement the guidelines of the fifth edition of the Balance of Payments Manual. In this regard, the Committee has been seeking to clarify and elaborate on some of the new statistical treatments recommended in the Manual. On the basis of papers prepared by the staff of the Fund’s Statistics Department and Committee members, the Committee has reviewed the conceptual underpinnings of the new statistical treatments recommended in the Manual and provided guidance on how countries can implement the recommendations in practice. Such topics covered have included accrual accounting for interest flows, the identification of current and capital transfers, the recording of international insurance transactions, the measurement of reinvested earnings on direct investment, the market valuation of...
direct investment (stocks), and imputing service earnings of financial intermediaries. The staff papers will be revised to take account of Committee members’ comments and circulated to compilers of the Fund’s member countries to assist them in implementing the new guidelines of the Manual.

The Committee also has been working to develop statistics on the operations of foreign affiliates of resident enterprises, commonly referred to as “establishment trade statistics.” Although these statistics are outside the purview of the balance of payments, they are considered a complementary set of data needed in the context of the statistical requirements of the General Agreement on Trade in Services (GATS) of the World Trade Organization.

Interest in establishment trade statistics is increasing among Fund members as well as among international organizations, and such statistics are central to the work program of the Inter-Agency Task Force on Services Statistics of the UN Statistical Commission. This interest stems from the needs of trade negotiators. There was general agreement by the Committee that a conceptual framework for the production of such statistics needs to be developed, but the framework should be distinguished from balance of payments concepts. The latter are measured based on the concept of “residence,” whereas establishment trade statistics are not.\(^3\)

The Committee has also made good progress in its work on international banking statistics. The BIS is undertaking a pilot project to construct a separate database that will align the international banking statistics more closely with the balance of payments accounts. This will facilitate the use of international banking statistics by countries to compile and/or check estimates of nonbanks’ assets and liabilities vis-a-vis nonresidents.

A small number of countries, including Canada, Germany, Switzerland, the United Kingdom, and the United States, already use elements of the international banking statistics to derive selected balance of payments and international investment position estimates.

Since 1992, the United States has expanded its use of the international banking statistics. By substituting the international banking statistics of selected countries for the data collected in the United States, compilers raised their estimates of nonbank financial claims on nonresidents by over $200 billion in 1993. A similar increase was registered in measures of U.S. nonbank liabilities. (Please also see article on page 9.)

It would be useful for compilers in more countries to become familiar with the international banking statistics. With this in mind, the Committee will explore ways in which national compilers can secure more information on the methodologies used to construct international banking statistics.

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1 Including Australia, Austria, Belgium, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

2 Including the Bank of International Settlements, the European Monetary Institute, the Organization for Cooperation and Development, and the IMF.

3 The concept of residence underlying the measurement of balance of payments transactions is based on the notion of economic territories of the country (which broadly correspond to its geographic boundaries), whereas that for establishment trade statistics could be based on the nationality or other legal criteria of the economic entity undertaking the transactions.
United States Using International Banking Statistics To Enhance Coverage of Financial Transactions

Over the past several years, compilers in major industrial countries, statistical working groups at the IMF, and statisticians at the Bank for International Settlements (BIS) have noted deficiencies in the coverage of international capital transactions. Existing reporting systems in most countries incompletely record such transactions or fail to record them at all, leading to large distortions in countries' balance of payments accounts and to significant difficulties in making country comparisons on such transactions. The shortcomings are in large part due to the rapid integration of world capital markets and the rise in direct transactions that bypass existing data collection systems.

In the United States, the integration of world financial markets has resulted in a sharp rise in the volume of direct financial transactions between U.S. nonbank companies (and individuals) and foreign banks. The U.S. system for tracking international nonbanking transactions was designed for a time when most such transactions flowed through U.S. banks and other major financial institutions and when only the very largest U.S. companies conducted direct transactions with foreign banks. The sharp rise in direct transactions by a wide range of nonbank companies has meant that the reporting methods devised in the past do not adequately capture a large volume of U.S. international capital transactions. Nonetheless, these same transactions often are captured in the data of foreign banks reported to their central banks and the Bank for International Settlements (BIS).

In 1991, the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, the agency that is responsible for compiling the U.S. balance of payments, began to explore the possibility of substituting foreign banking data for U.S. source data. The aim was to close gaps in coverage of direct transactions between U.S. nonbank residents and foreign banks. This has proved to be a highly efficient use of resources, particularly when foreign central banks and statistical authorities are, for the most part, already collecting the data.

BEA’s initial efforts led it to work with compilers of selected countries under the IMF’s auspices. Together, they examined issues of data measurement and international comparability. BEA’s later efforts involved working with these compilers to ensure that their concepts and definitions were consistent and facilitate comparability. These efforts, which were positive in outcome, permitted the United States and other countries to make expanded use of counterpart data. Over a two-year period beginning in 1992, bilateral data from Canada and the United Kingdom, as well as supplemental data from the U.S. Federal Reserve Board, were first introduced in the U.S. balance of payments accounts, where they replaced U.S. data. Additional bilateral data from the Netherlands, Germany, Italy, and France were subsequently substituted.

The third and final phase, which was largely completed with 1994 revisions, involved having BEA statisticians work with their counterparts at the U.S. Federal Reserve Board and the BIS to examine the comprehensive data the Federal Reserve and the BIS compile.
As a result of this research, BEA is substituting in the U.S. balance of payments accounts a large body of the statistics that the BIS compiles on foreign banks’ transactions with U.S. nonbanks. The substitution removes significant gaps in coverage from the U.S. accounts and now presents a picture of U.S. nonbanking activity that broadly parallels that of banking activity over the past decade. Specifics on both the claims and liabilities of U.S. nonbanking concerns’ are discussed below.

Claims on unaffiliated foreigners

In 1994, BEA significantly expanded its use of foreign source data by substituting counterpart statistics from an additional 10 European countries as well as the Caribbean and Asian banking (financial) centers covered by the BIS reporting system; these data provide a measure of the liabilities of foreign banks to U.S. nonbanking concerns. The BIS data offer substantially more complete coverage than the bilateral substitutions made to date. In addition, they incorporate recent improvements the U.S. Federal Reserve Board has made in the reporting of transactions of foreign-owned banks resident in the Caribbean Islands.

BEA made these substitutions after extensive consultations with statisticians in foreign countries and at the BIS. These officials confirmed that securities transactions and banking transactions can be separately identified in the BIS data, thereby avoiding an overlap with transactions reported elsewhere in the U.S. balance of payments accounts. Where these criteria cannot be met, as has been the case for Japan, the BIS data are not used.

The impact of this substitution on the U.S. accounts has been dramatic. Before such substitutions were made, U.S. source data recorded U.S. nonbank financial claims on foreigners to be $35.1 billion at yearend 1983 and $42.6 billion at yearend 1993. As a result of the bilateral substitutions made in 1992 and 1993, nonbank claims were raised to $76.1 billion for yearend 1983, and $115.7 billion for the end of 1993. With the use of BIS data in 1994, nonbank claims were raised to $131.3 billion for the end of 1983 and to $254.5 billion a decade later.

The growth indicated by the revised estimates more accurately reflects the rapid expansion of U.S. nonbank activity that has occurred over the past decade, particularly through Caribbean financial centers and, very recently, through the Asian financial centers. At the end of 1993, U.S. nonbank claims on Caribbean banks accounted for $124.2 billion of the $254.5 billion in total outstanding claims, and nonbank claims on Asian banks accounted for $10.0 billion. Growth was most rapid in 1988-90 but has leveled off since then.

Liabilities to unaffiliated foreigners

Until 1994, BEA had been unable to substitute BIS data for claims reported by foreign banks, largely because BIS data did not adequately separate securities transactions from banking ones. This difficulty remains with much of the claims data foreign banks report to the BIS, and BIS statisticians are working with statistical officials in reporting countries to separate the two types of transactions.
However, for banks' claims reported in the Caribbean and Asia offshore financial centers, BEA’s discussions with international banking experts at the Federal Reserve Board and the BIS have confirmed that commingling of securities and banking transactions is insignificant for foreign banks’ claims on U.S. nonbanks reported to the BIS by offshore financial centers. Furthermore, bilateral data obtained from the Bank of England also permit the separation of banking and securities transactions. Therefore, BIS data on banks’ claims on U.S. nonbanks for the Caribbean and Asian offshore financial centers, as well as bilateral data from the Bank of England, have been incorporated in the U.S. balance of payments accounts.

The effect on the U.S. accounts has been considerable. Before substitutions were made, U.S. source data recorded U.S. nonbank financial liabilities to foreigners to be $26.9 billion at yearend 1983 and $54.5 billion at yearend 1993. With the 1994 substitution of the BIS data, nonbank liabilities were raised to $61.7 billion for the end of 1983 and $233 billion a decade later.

As mentioned above in the case for U.S. nonbanks’ claims on foreign banks, the growth indicated by the revised estimates more correctly reflects the rapid expansion of U.S. nonbank activity that has occurred over the past decade, particularly through Caribbean financial centers and, very recently, through the Asian banking financial centers. At the end of 1993, U.S. nonbank financial liabilities to Caribbean banks accounted for $136.2 billion of the $233.3 billion in total outstanding liabilities, and nonbank liabilities to Asian banks accounted for $15.5 billion. Growth was most rapid in 1988-90 but only moderate in 1991-93.

**Nonbank interest receipts**

As a result of the substitution of BIS counterpart data for U.S. nonbank financial claims on foreign banks, income receipts shown in the U.S. balance of payments were raised for the years 1984-93. For 1984, the addition to receipts was $5 billion; the additions increased to $10.8 billion for 1990 before declining to $4.6 billion for 1993. Additions were largest for 1989-91, when claims increased especially rapidly in response to strong economic expansion in both industrial and developing countries, and when interest rates rose rapidly in response to increases in the demand for funds and to rising inflation. For 1992-93, additions were smaller because growth in outstanding claims leveled off and interest rates fell sharply.

**Nonbank interest payments**

As a result of the substitution of BIS counterpart data for U.S. nonbank financial liabilities to foreign banks, income payments were raised for 1984-93. For 1984, the addition to payments was $4.5 billion; additions increased to $12.6 billion for 1990, before declining to $6.3 billion for 1993. As in the case for nonbank income receipts discussed above, additions were largest for 1988-91, when liabilities increased especially rapidly in response to strong economic expansion in both industrial and developing countries, and when interest rates rose rapidly in response to increases in the demand for funds and to rising inflation. For 1992-93,
additions were smaller, as the growth in outstanding liabilities slowed and interest rates fell sharply.

Additions to nonbank income payments were generally larger than additions to nonbank income receipts because of the larger outstanding liability positions to which interest rates were applied. This was also the case because asset positions and related income receipts had already been partially adjusted for lack of coverage in the 1992 and 1993 revisions.

Bank interest payments on custody liabilities

Because the new estimates of nonbank liabilities and nonbank income payments include custody transactions conducted by U.S. banks for U.S. nonbanks, such transactions were removed from the banking accounts of the U.S. balance of payments for 1986-93 to avoid double counting. This is necessary because a large portion of banks’ custody transactions is for nonbanks. Reductions to income payments were largest in 1989-91, when liability positions were substantially reduced and when interest rates rose strongly; reductions to positions for 1992-93 were also large, but interest rates in those years fell sharply. For 1993, bank income payments on custody liabilities were reduced by $2 billion.

This article is based on “U.S. International Transactions, Revised Estimates for 1984-93,” by Christopher Bach, Survey of Current Business, June 1994, Washington, D.C.
The abolition of foreign exchange controls in Italy has prompted radical changes in the way balance of payments statistics are collected and disseminated. Through the 1980s, exchange controls generated information that, as a by-product, yielded data on the balance of payments and on the international operations of Italian banks and firms. Since the introduction in 1990 of liberalized capital controls, data have had to be collected explicitly for the compilation of the country’s balance of payments.

This new data compilation function has posed challenges to the Italian Foreign Exchange Office (Ufficio Italiano dei Cambi–UIC), which has the exclusive responsibility for the monitoring of foreign currency transactions and all information pertaining to them. The choices UIC made in developing an effective statistical system provide a number of useful lessons that may be of general interest.

National statistics are a typical example of a “public good.” The costs incurred in producing this “good” are, in general, quite high. Yet, once the data have been created and disseminated to the public, they are free. The costs of collection, verification, production, and dissemination can be justified on the ground that they are needed for macroeconomic policy-making. In the private sector, data filers would like to minimize or avoid the burden of reporting.

Statistical reporting by banks and firms could be made obligatory through a series of specific laws and rigorous sanctions. But the probability that such sanctions would be effective is rather low. Much higher is the likelihood that the bureaucratic apparatus created to monitor formal compliance with the laws and to apply the sanctions envisaged in case of violations would swell.

In view of these drawbacks, UIC has addressed the issue of compliance in a different way, which appears to hold considerable potential. Underlying the UIC approach is the concept that it is possible to construct a “feedback flow” system that returns information to those supplying it in the first place. The data filers could use the collected data for their various business purposes. This benefit that data providers receive could be seen as reducing their reporting burden, offering them incentives to provide timely and accurate data, and giving rise to a virtuous circle in the flow of statistical information. This paper affords a description of what UIC has accomplished to date and what it has made available to data providers.

UIC regularly collects data from banks and firms on magnetic tapes, disks, and other media. About 3 million records are received each month. The data are checked, validated, and processed before being published monthly. The original information is stored in UIC databases, where its confidentiality is respected.

The introduction of the “feedback flow” systems has as its aim to make available to reporting bodies a number of subseries from the huge database. It also provides them with appropriate data processing tools, so that they can extract information to meet not only “macro” but also “micro” needs. The UIC has developed such a system for banks.
Italy

For a better understanding of the system, let us view it from the point of view of a bank to which UIC provides the collected data. To facilitate the bank's use of the data, UIC makes available special user-friendly software, which can be operated on standard personal computers. Information can be displayed in the form of tables and graphics. In the future, data will be sent to banks on a CD-ROM, as opposed to floppy disks.

Among facets of the data that a bank could explore are those pertaining to its international transactions in foreign currencies and in lira with Italian and foreign banks and other customers. Market shares could be analyzed in detail with reference to the bank's presence in an Italian province and to its trade, services, and various kinds of financial operations. It would also be possible to study changes in the bank's market shares over time and as a function of a geographical area.

In addition, the bank could analyze its international and currency operations relative to the entire system or to those of other banks. It would also be possible for the bank to use the data given it by the UIC to assess trends in lira and foreign currencies. The range of analyses that could be performed is enormous, and it is difficult to imagine a bank that would not want access to such a wealth of information.

The development of the "feedback flow" system for nonbanks is still at a developmental stage. In Italy, ten of thousands of firms are engaged in foreign trade. Tailoring products to meet the needs of each would create practical problems that could not easily be resolved in the short term, if at all. Moreover, the present database is limited to information supplied by banks. Accordingly, a long period of experimentation with a selected group of companies will be necessary.

The prototype developed for nonbanks thus far contains a series of instructions and techniques on how to input and download UIC data. Moreover, it is possible for users to integrate data external to the UIC system with the UIC data. Data made available to firms are those contained in UIC's module "Currency Statistics Communication." The data relate to all the foreign operations, both commercial and financial, carried out by Italian firms and other nonbank residents. As concerns macroeconomic analysis, the UIC data would afford users a broad picture of the main economic aggregates affecting foreign trade. For example, aggregate investment data would be subdivided by type of financial instrument and further classified by counterpart country.

With regard to microeconomic analysis, the data would facilitate detailed analysis of commercial transactions by product, by target market, by size, and by home province of the Italian companies. Thus, for example, firm X—which, let us say, sells kitchen appliances—would be able to study its sales of refrigerators in the French market and compare them with those of other Italian firms subdivided by level of sales. The same company could analyze its relative position in other markets, European or non-European. Firms could also glean from the database terms of payment of certain groups of transactions.

Additional time and effort will be required to develop and refine the virtuous circle of statistical information now under construction. The prototype of the feedback flows has been presented in Luxembourg to the EU Committee on

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 approach being applied with banks . . .

. . . and with nonbanks to follow

Benefits for data suppliers could be significant

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Monetary, Financial, and Balance of Payments Statistics. The Committee is composed of representatives of national statistical offices and of central banks of all EU countries. Demonstration versions of UIC products were also released to the public at the second National Conference of Statistics organized by the Italian Central Institute for Statistics in November 1994.

This article is an edited version of a paper contributed by Mr. A. Biagioli, head of the Statistics Department, Ufficio Italiano Dei Cambi (UIC). Mr. Biagioli is a member of the IMF Committee on Balance of Payments Statistics.
Portugal's New Balance of Payments Data Systems

The year 1993 was particularly notable for Portugal’s compilers of balance of payments statistics in that it was marked by the liberalization of capital movements within the European Union (EU), the creation of an integrated European financial area, and the elimination of Customs barriers for intra-EU trade. These developments have had significant implications for Portugal’s collection of balance of payments data. In fact, they have led Lisbon to adopt what in many respects is a new balance of payments compilation system.

The new system has involved modifications of the old one in two major areas. First, external trade statistics, which previously had been compiled using Portugal’s Customs data, since January 1993 have been produced, consistent with the EU approach, from data obtained directly from companies.1

Second, in January 1993, the Bank of Portugal introduced new ways to compile and present other balance of payments data, as well as statistics on Portugal’s external assets and liabilities. The changes were necessitated by the inadequacy of existing collection procedures. These, in turn, have become outmoded because of Portugal’s liberalization of foreign exchange controls and Lisbon’s participation in statistical harmonization efforts associated with the EU economic and monetary union.

Under the new system, the Bank of Portugal compiles information on a monthly basis. In doing so, it utilizes data from resident banks and other financial institutions, and from resident entities engaged in international transactions without intermediation of resident banks. Such resident entities include resident companies and individuals holding bank accounts abroad and other residents having their receipts and payments cleared directly through the Bank of Portugal.

The Bank of Portugal has provided banks and other data filers with procedural manuals on balance of payments reporting. The new system permits a more detailed breakdown of international transactions than the predecessor one. With regard to the current account, the new system covers 125 data categories, as contrasted with 11 in the old one. The new classification scheme is consistent with the main methodological recommendations of international organizations such as the IMF, the Statistical Office of the European Community (EUROSTAT), and the Organization for Economic Cooperation and Development (OECD). It observes the nomenclature presented in the IMF’s fifth edition of the Balance of Payments Manual (Manual).

Because the new system makes greater use of computers for the processing and analysis of information, it generates statistics of high quality both more rapidly and at less cost than was the case in the past. Moreover, the approach is more compatible with the protocols envisaged under the EC’s "EDIFACT" system.2
As concerns the presentation of statistics, the new system, unlike the former one, allows compilation of the data on a cash, as well as transaction, basis. Data compiled on a cash basis are derived from payment and receipt information reported by banks and other financial institutions to the Bank of Portugal. The central bank processes these data first. Balance of payments data compiled on a transaction basis are subsequently developed using supplemental information on external trade reported by companies to the National Institute of Statistics.

Because of the changes in reporting procedures and data sources, statistics produced under the new system are not entirely consistent with historical time series. This has been particularly the case with merchandise trade data. On the positive side, however, much more detailed information can be found in Portugal’s recent balance payments statements and in its other statistics covering the country’s external transactions than was previously the case. Many additional advantages of the new system will become more evident in the years ahead.

This article is an edited version of a paper contributed by the Bank of Portugal.

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Argentina Working To Improve Data With Assistance of IMF and IDB

Argentina has initiated a major effort to improve its compilation of balance of payments data. The overall aim is to ensure that practices and methodologies utilized accord with the country’s new economic environment and the guidelines contained in the fifth edition of the Balance of Payments Manual (Manual). The Inter-American Development Bank (IDB) is helping to finance the effort under a three-year program that began in May 1995. The initiative also benefits from the Fund’s technical assistance. Pursuant to this effort, the balance of payments compilation functions of Argentina’s Central Bank are being transferred to a new entity, the National Directorate of International Accounts in the Ministry of the Economy.

With regard to the fifth edition of the Manual, Argentina officials have concluded that the guidelines that will be easiest for them to implement are those that involve (1) distinguishing among goods, services, incomes, and transfers in the current account and (2) recording of interest on an accrual basis. They believe that the features of the Manual that will be most difficult to introduce are those that require classifying financial transactions by function and compiling data on international investment position (IIP).

As a part of Argentina’s strategy for implementing the guidelines, compilers responsible for the balance of payments data are conducting an extensive methodological review of estimative procedures and data collection methods. Consistent with the criteria set forth in the Manual, a number of improvements are now under consideration. This process will culminate in the introduction of a new national presentation of the data.

Steps are already under way to improve the current account statistics. A balance of payments office has been established under the National Institute of Statistics and Census to collect data on international services. Additional efforts, however, are needed to collect data on the expanded list of services prescribed in the Manual.

There are other areas that also require attention. Data on goods are derived from information gathered by the National Customs Administration. At present, they lack the degree of detail called for in the Manual (such as data on goods for repair, processing, etc.)

As concerns transfers, Argentina at present has only limited data that can be classified separately into current and capital transfers. It also lacks data on migrants’ transfers, workers’ remittances, private debt forgiveness, and humanitarian aid. Consideration is being given to undertaking more work in these areas.

In addition, currently, Argentina has limited information on cross-border financial holdings and transactions of the private sector. This has impeded the compilation of data not only for the financial accounts, but also for the computation of interest payments and receipts on such investments. Furthermore, at
present, Argentina does not compile any IIP data. Estimation of financial flows of the private sector and the compilation of IIP data are other important areas in which improvements are being contemplated.

With the financial support of the IDB and the technical assistance of the Fund, the authorities believe that, over the next few years, Argentina’s balance of payments data will be improved and better adhere to international standards.

*The Argentinean authorities provided information for this article.*
<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>June 12-15</td>
<td>Conference of European Statisticians, Geneva</td>
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<tr>
<td>June 15-19</td>
<td>Subcommittee on Statistical Activities, United Nations Administrative Committee on Coordination (ACC), Geneva</td>
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<tr>
<td>August 23-25</td>
<td>International Statistical Institute (ISI) Workshop on Asia Transition Countries, Beijing</td>
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<tr>
<td>September 18-21</td>
<td>Tenth Regional Conference of Pacific Statisticians (South Pacific Commission), Noumea</td>
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<tr>
<td>October 23-24</td>
<td>IMF Task Force on the Coordinated Portfolio Investment Survey, Ufficio Italiano dei Cambi, Rome</td>
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<td>October 25-26</td>
<td>IMF Committee on Balance of Payments Statistics, Ufficio Italiano dei Cambi, Rome</td>
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<td>November 7-10</td>
<td>Working Group on Statistical Coordination, United Nations Statistical Office (UNSTAT), New York</td>
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