



# Balance of Payments Statistics

A NEWSLETTER FROM THE BALANCE OF PAYMENTS AND EXTERNAL DEBT DIVISIONS • STATISTICS DEPARTMENT • IMF

*Copies of the operational guidelines have been provided to the governors of the central banks of IMF member countries and data compilers in SDDS subscribing countries.*

*The guidelines have also been posted on the IMF's Web site at [www.dsbb.imf.org/guide.htm](http://www.dsbb.imf.org/guide.htm).*



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## IMF Releases the Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity

**T**he International Monetary Fund (IMF) recently issued its *Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity* (Washington, D.C., October 1999). The IMF prepared the operational guidelines to assist countries to compile data for the template on international reserves and foreign currency liquidity. The IMF and a working group of the Committee on the Global Financial System (CGFS) of the Group of Ten central banks jointly developed the template. (See also "Reserves Template to Help Strengthen the International Financial Architecture" in the midyear 1999 issue of this *Newsletter*.)

The data template is designed to provide a comprehensive account of countries' international reserves and other foreign currency assets and drains on such resources arising from various foreign currency liabilities and commitments of the authorities. The public disclosure of such information by countries on a timely and accurate basis will promote informed decision-making in the public and private sectors, thereby helping to improve the functioning of global financial markets.

The template is a prescribed category of the IMF's Special Data Dissemination Standard (SDDS). The transition period for SDDS subscribing countries to provide the template data ends on March 31, 2000. Following the end of the transition period, SDDS subscribing countries will need to disseminate their template data on a monthly basis with a lag of no longer than one month.

The operational guidelines clarify data concepts, definitions, and classifications and discuss ways to report the requisite data in the template. The guidelines are presented in five chapters and a number of appendices. Chapter One of the document provides an overview of the genesis of the template and outlines its structure and key features. The chapter is primarily intended for those readers, including members of the press, interested in a general understanding of the template. The later chapters and the appendices, which are more technical, are designed to facilitate compilation of the template by data providers. In developing the guidelines, the IMF staff consulted with IMF member countries, the CGFS, and the European Central Bank. (See also the article on "What Are International Reserves? How Are They To Be Compiled?" on pp. 3-10 of this issue of the *Newsletter*.)

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## IMF Balance of Payments Statistics Newsletter • Volume VII, Number 2 • Year-end 1999

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 IMF. 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 Kathy Tilmans.

## What Are International Reserves? How Are They To Be Compiled?

**T**he fifth edition of the *IMF Balance of Payments Manual (BPM5)*<sup>1</sup> provides the international guidelines for the compilation of countries' international reserves. The *BPM5* defines a country's international reserves as "external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes." (*BPM5*, para. 424.) Consistent with this definition, the *BPM5* refers to international reserves as "reserve assets." Also, under this definition, international reserves is a gross concept; it does not include external liabilities of the monetary authorities.<sup>2</sup>

Recent financial crises have revealed that the coverage of international reserves varies among countries, at times obscuring weaknesses and imbalances and often impeding cross-country comparisons. Reviews of the international reserves data that countries publish indicate that their coverage varies in part because not all countries interpret the *BPM5* guidelines similarly and in part because some countries do not fully disclose their international reserves.

To assist countries to report their reserve assets accurately and to promote comparability of such data among countries, the *Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity (Guidelines)*, issued by the IMF in October 1999, (see also p.1 of this issue of the *Newsletter*), amplify on the concept of international reserves as set forth in the *BPM5*, clarify what financial instruments can be classified as reserve assets, and discuss how such assets might be valued. The rest of this article, drawn from the *Guidelines*, highlights these issues.

### What are reserve assets?

As defined above, reserve assets have to meet certain criteria. They have to be (1) "external assets" of the monetary authorities; (2) "readily available to" and "controlled by" the monetary authorities; and (3) held for the purpose of meeting balance of payments financing needs, intervention in exchange markets, and other purposes.

The *BPM5* (para. 514) defines "monetary authorities" as "a functional concept" encompassing the central bank (and other institutional units such as the currency board, monetary agency, etc.) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks. Such operations include the issuance of currency; maintenance and management of international reserves, including those resulting from transactions with the IMF; and the operation of exchange stabilization funds.

The *BPM5* also defines “external assets” as claims on nonresidents, with reserve assets representing the monetary authorities’ claims on nonresidents. In the *BPM5*, the concept of residence is not based on nationality or legal criteria; it is based on the transactor’s center of economic interest. A transactor is considered a resident of a country if its center of economic interest is in the economic territory of the country. The economic territory of a country generally corresponds to its geographical boundaries (although it can extend beyond them). A transactor whose center of economic interest is outside the economic territory of the country is considered a nonresident.

The *BPM5*, however, is less explicit about how the notions of “readily available to” and “controlled by” should be applied in practice. In addition, the *BPM5* does not specify what types of assets can be used to meet balance of payments financing needs and for intervention in exchange markets.

In view of countries’ varying coverage of their reserve assets and the need for data comparability across countries, the *Guidelines* amplify the *BPM5* concept of reserve assets as follows:

- ▶ To be readily available to the monetary authorities, reserve assets have to be, first and foremost, liquid and marketable. “Marketable” assets refer to those that can be bought, sold, and liquidated with minimum cost and time and for which there are ready and willing sellers and buyers. “Readily available” assets are those available with few constraints.
- ▶ For the authorities to use the assets to finance payments imbalances and to support the exchange rate, the reserve assets must be foreign currency assets.
- ▶ Furthermore, to be liquid, such foreign currency assets must be in convertible foreign currencies, that is, foreign currencies that are freely usable for settlements of international transactions of the reporting country. A corollary is that assets redeemable only in nonconvertible foreign currencies cannot be reserve assets.
- ▶ Since “external” assets refer to claims of the monetary authorities on nonresidents, the authorities’ claims on residents are not reserve assets.
- ▶ In general, only external claims actually owned by the monetary authorities are regarded as reserve assets. Nonetheless, ownership is not the only condition that confers control. In cases where institutional units (other than the monetary authorities) in the reporting economy hold legal title to external foreign currency assets and are permitted to do so only on terms specified by the monetary authorities or only with their express approval, such assets are considered reserve assets. This is because such assets are under the effective control of the monetary authorities.
- ▶ Transfers of foreign currency claims to the monetary authorities by other institutional units in the reporting economy just prior to certain

accounting or reporting dates with accompanying reversals of such transfers soon after those dates (commonly known as “window dressing”) should not be counted as reserve assets. If such transfers are included in reserves, they should be disclosed in supplementary detail accompanying the data.

- Assets pledged are typically not readily available. If clearly not readily available, pledged assets should be excluded from reserves. An example of pledged assets that clearly would not be readily available are reserve assets that are blocked when used as collateral for third-party loans and third-party payments. If pledged assets are included in reserves, the value of such pledged assets should be disclosed in supplementary information accompanying the data. Reserve assets encumbered in other ways, such as those under repurchase agreements (repos) and securities lending arrangements, should be disclosed similarly.<sup>3</sup>
- Reserve assets must actually exist. Lines of credit that could be drawn on and foreign exchange resources that could be obtained under swap agreements are not reserve assets because they do not constitute existing claims. Such lines of credit, however, can be reported as supplementary information.
- Real estate owned by the monetary authorities is not to be included in reserve assets because real estate is not considered a liquid asset.

### **How are financial instruments classified among reserve assets?**

Reserve assets include only certain financial instruments. The *BPM5* lists among reserve assets these instruments: foreign exchange (consisting of holdings of securities, currency and deposits, and financial derivatives), monetary gold,<sup>4</sup> special drawing rights (SDRs), reserve position in the Fund, and other claims. These classifications correspond to “foreign currency reserves,” “gold,” “SDRs,” “IMF reserve position,” and “other reserve assets,” respectively, in the data template on international reserves and foreign currency liquidity, for which the *Guidelines* are developed.

Monetary gold, SDRs, and reserve positions in the Fund are considered reserve assets because they are owned assets readily available to the monetary authorities in unconditional form. Foreign exchange and other claims in many instances are equally available and therefore qualify as reserve assets.

The following recommendations are advanced in the *Guidelines* to assist compilers to determine what financial instruments should be included in reserve assets:

- **For securities**, they should be highly liquid, marketable equity and debt securities;<sup>5</sup> liquid, marketable, long-term securities (such as 30-year U.S. Treasury bonds) can be included. Nonissued securities (that is, securities not listed for public trading) are excluded; such securities are deemed not to be marketable and liquid enough to qualify as reserve assets.

*Only certain financial assets qualify as international reserves.*

- ▶ Only foreign currency securities issued by nonresident entities should be included; these cover securities issued by institutions headquartered in the reporting country but located abroad, as well as those issued by institutions headquartered and located abroad.
- ▶ **Currency** consists of monetary authorities' holdings of foreign currency notes and coins in circulation and commonly used to make payments. Commemorative coins and uncirculated banknotes are excluded.
- ▶ **Deposits** to be included are those available on demand; these generally are referred to as demand deposits. Term deposits that are redeemable upon demand can also be included. Deposits in reserve assets are those held in foreign central banks, the Bank for International Settlements (BIS), and other banks. The term "banks" generally refers to financial depository institutions<sup>6</sup> and encompasses such institutions as "commercial banks, savings banks, savings and loan associations, credit unions or cooperatives, building societies, and post office savings banks or other government-controlled savings banks (if such banks are institutional units separate from government)."<sup>7</sup>
- ▶ Under the residency concept set forth in the *BPM5*, monetary authorities' deposits held in resident banks (including banks headquartered and located in the reporting country and banks headquartered abroad but located in the reporting country) do not constitute external claims on nonresidents and are not considered reserve assets. Nonetheless, the *BPM5* permits the authorities' foreign currency deposits held in resident banks (banks located in the reporting country, whether they are domestically or foreign controlled) to be included in reserves under certain restrictive circumstances. In particular, this may be permitted when the banks located in the reporting country have counterpart foreign currency claims upon nonresident entities and the counterpart claims are under the effective control of the monetary authorities and readily available to them to meet balance of payments financing and other needs.
- ▶ Because short-term loans provided by the monetary authorities to other central banks, the BIS, the IMF (such as the ESAF Trust Loan Account), and depository institutions are much like deposits, it is difficult in practice to distinguish the two. For this reason, the reporting of deposits in reserve assets should include short-term foreign currency loans that are redeemable upon demand made by the monetary authorities to these nonresident banking entities.
- ▶ Short-term foreign currency loans that are available upon demand made by the monetary authorities to nonresident nonbank entities, however, are not deposits but can be disclosed in "other reserve assets."
- ▶ Long-term loans provided by the monetary authorities to nonresidents, which would not be readily available for use in times of need, are not reserve assets.

- **Reserve position in the IMF** is the sum of (1) SDR and foreign currency amounts that a member country may draw from the IMF at short notice and without conditions from its “reserve tranche,”<sup>8</sup> and (2) indebtedness of the IMF (under a loan agreement) readily available to the member country including the reporting country’s lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).<sup>9</sup>
- **SDRs** are international reserve assets the IMF created to supplement the reserves of IMF member countries. SDRs are allocated in proportion to countries’ respective quotas in the IMF.
- **Gold** is treated as a financial instrument because of its historical role in the international monetary system. As noted earlier in footnote 4, gold held by monetary authorities as a reserve asset is referred to as monetary gold. All other gold of the authorities (e.g., gold held for trading purposes) is not monetary gold and should not be included among reserve assets. In addition, holdings of silver bullion, diamonds, and other precious metals and stones<sup>10</sup> are not reserve assets.
- Gold deposits are to be included in gold and not in total deposits. In reserves management, it is common for monetary authorities to have their bullion deposited<sup>11</sup> with a bullion bank, which may use the gold for trading purposes in world gold markets. The ownership of the gold effectively remains with the monetary authorities, which earn interest on the deposits, and the gold is returned to the monetary authorities on maturity of the deposits. The term maturity of the gold deposit is often short, up to six months. To qualify as reserve assets, gold deposits must be available upon demand to the monetary authorities. To minimize risks of default, monetary authorities can require adequate collateral (such as securities) from the bullion bank. It is important that compilers not include such securities collateral in reserve assets, thereby preventing double counting.
- In reserves management, monetary authorities also may undertake gold swaps.<sup>12</sup> In gold swaps, gold is exchanged for cash and a firm commitment is made by the monetary authorities to repurchase the quantity of gold exchanged at a future date. Accounting practices for gold swaps vary among countries. Some countries record gold swaps as transactions in gold, in which both the gold and the cash exchanged are reflected as offsetting asset entries among reserve assets.<sup>13</sup> Others treat gold swaps as collateralized loans, leaving the gold on reserve assets, as well as recording the cash received among foreign exchange in reserve assets, counterbalanced by a liability entry on the balance sheet of the monetary authorities.<sup>14</sup> To enhance data transparency, it is recommended that countries disclose the accounting methods used in supplementary information.

*Reserve assets are to reflect their market values.*

- ▶ “Other reserve assets” include assets that are liquid and readily available to the monetary authorities but not included in the other categories of reserve assets. These assets can include (1) net, marked-to-market value of financial derivatives positions (including, for instance, forwards, futures, swaps, and options) of the monetary authorities with nonresidents, if the derivative products pertain to the management of reserve assets, are integral to the valuation of such assets, and are under the effective control of the monetary authorities; such assets must be highly liquid and denominated and settled in foreign currency; and “net” refers to asset positions offset by liability positions (i.e., netting by novation); (2) short-term foreign currency loans redeemable upon demand provided by the monetary authorities to nonbank nonresidents; and (3) repo assets that are liquid and available upon demand to the monetary authorities.

### **How should reserve assets be valued?**

In principle, “reserve assets” are to be valued at market prices. In practice, however, accounting systems may not generate actual market values on all reporting dates for all classes of instruments. The *Guidelines* recommend that, in these cases, approximate market values may be substituted. Other recommendations proffered in the *Guidelines* for the valuation of reserve assets include the following:

- ▶ The market valuation should be applied to reserve assets (that is, the stock of the assets) on the reference date (that is, at the end of the appropriate reporting period). If necessary, the stock of assets on the reference date can be approximated by adding the net cumulating flows during the reference period to the stock at the beginning of the reference period.
- ▶ In valuing reserve assets, interest earnings, as accrued, on such foreign currency assets should be included.
- ▶ Periodic revaluations of the different types of assets should be undertaken to establish benchmarks on which future approximations can be based. It is recommended that such benchmark revaluations be undertaken at least on a quarterly basis. For each reporting period, at a minimum, the value of foreign currency instruments should be adjusted using the market exchange rates applicable on the reference date to arrive at an approximate market value of the assets.
- ▶ The stock of equity securities of companies listed on stock exchanges can be revalued based on transaction prices<sup>15</sup> on the revaluation date. If such transaction prices are not available, the midpoint of the quoted buy and sell prices of the shares on their main stock exchange on the reference date should provide a useful approximation.
- ▶ The market value of currency and deposits generally is reflected in their nominal (face) value.



- For debt securities, the market price is the traded price on the reference date and includes accrued interest. If that value is not available, other methods of approximation include yield to maturity, discounted present value, face value less (plus) written value of discount (premium), and issue price plus amortization of discount (premium).
- With respect to financial derivatives, for futures contracts, this involves marking to market, which usually precedes the daily settlement of gains and losses. The market value of swap and forward contracts is derived from the difference between the initially agreed contract price and the prevailing (or expected prevailing) market price of the underlying item. The market values of options depend on a number of factors including the contract (strike) price, the price and price volatility of the underlying instrument, the time remaining before expiration of the contract, and interest rates.
- Monetary gold is valued at the current market price of commodity gold.
- SDRs are valued at an administrative rate determined by the IMF. The IMF determines the value of SDRs daily in U.S. dollars by summing the values, which are based on market exchange rates, of a weighted basket of currencies. The basket and weights are subject to revision from time to time.
- The reserve position in the IMF is valued at a rate reflecting current exchange rates (of the SDR against the currency used to report the template data for the reserve tranche position, and of the currency in which loans are denominated in the case of outstanding loans to the IMF by the reporting country).

### **Additional note**

The *Guidelines* also provide an analytical framework for using data on the authorities' reserve assets and other foreign currency assets, as well as related information on drains on such foreign currency resources, to help in assessing a country's foreign currency liquidity. Interested readers may refer to the *Guidelines* for greater detail. An overview of such a framework can also be found in the article on "Reserves Template To Help Strengthen the International Financial Architecture" in the midyear 1999 issue of this *Newsletter*.

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<sup>1</sup> See International Monetary Fund, *Balance of Payments Manual*, fifth edition, September 1993, Washington, D.C.

<sup>2</sup> The term "monetary authorities" is defined in the next section.

<sup>3</sup> A repurchase agreement is one in which a party that owns securities acquires funds by selling the specified securities to another party under simultaneous agreement to repurchase the same securities at a specified price and date. A reverse repo is one in which a party provides funds by purchasing specified securities pursuant to a simultaneous agreement to resell the same securities at a specified price and date. Securities lending involves the lending of securities collateralized by highly securities or in exchange for cash.

<sup>4</sup> Gold included in reserve assets is referred to as “monetary gold” in the BPM5.

<sup>5</sup> Equity securities include stocks and shares and similar instruments such as American Depository Receipts (ADRs). Also included are preferred shares and stocks, mutual funds and investment trusts. Debt securities cover (1) bonds and notes, debentures; and (2) money market instruments (such as treasury bills, commercial paper, bankers’ acceptances, negotiable certificates of deposits with original maturity of one year or less) and short-term notes issued under note issuance facilities.

<sup>6</sup> The BPM5 (para. 516) defines banks as the “other (than the central bank) depository corporations” and, in the 1993 System of National Accounts (1993 SNA), banks are defined as the “other (than the central bank) depository institutions” in the financial corporate sector. Included are institutional units engaging in financial intermediation as a principal activity and having liabilities in the form of deposits or financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits. Deposits include those payable on demand and transferable by check or otherwise usable for making payments and those that, while not readily transferable, may be viewed as substitutes for transferable deposits

<sup>7</sup> As defined in the 1993 System of National Accounts.

<sup>8</sup> Reserve-tranche positions in the IMF are liquid claims of members on the IMF. Such claims arise not only from the reserve asset payments for quota subscriptions but also, in the case of members in strong external positions, from the sale by the IMF of their currencies to meet the demand for use of IMF resources by other members in need of balance of payments support.

<sup>9</sup> The GAB and the NAB are standing borrowing arrangements between the IMF and a number of lenders. For IMF members, although lending under the GAB and the NAB is in domestic currency, such lending increases the country’s reserve position in the IMF. A country’s claims on the IMF under the GAB and the NAB are reserve assets because the country can obtain an equivalent amount of convertible foreign currency from the IMF if it represents that it has a balance of payments need.

<sup>10</sup> These precious metals and stones are considered goods and not financial assets.

<sup>11</sup> Physically or on book entries.

<sup>12</sup> Such gold swaps generally are undertaken between monetary authorities and with financial institutions.

<sup>13</sup> This treatment is consistent with *BPM5* (para. 434) to the extent that the swap is between monetary authorities. The rationale is that in a gold swap, the monetary authorities swap gold for other assets (such as foreign exchange) and that this involves a change in ownership. The ownership of gold is re-transferred to the original owner when the swap is unwound at a specific date and at a specific price.

<sup>14</sup> This treatment applies only when an exchange of cash against gold occurs, the commitment to buy back the gold is legally binding, and the repurchase price is fixed at the time of the spot transaction. The logic is that in a gold swap the “economic ownership” of the gold remains with the monetary authorities, even though the authorities temporarily have handed over the “legal ownership.” The commitment to repurchase the quantity of gold exchanged is firm (the repurchase price is fixed in advance), and any movement in gold prices after the swap affects the wealth of the monetary authorities. Under this treatment, the gold swapped remains as a reserve asset and the cash received is a repo deposit. Gold swaps commonly permit central banks’ gold reserves to earn interest. Usually, the central banks receive cash for the gold. The counterparty generally sells the gold on the market but typically makes no delivery of the gold. The counterparty often is a bank that wants to take short positions in gold and bets that the price of gold will fall or is one that takes advantage of arbitrage possibilities offered by combining a gold swap with a gold sale and a purchase of a gold future. Gold producers sell gold futures and forwards to hedge their future gold production. Treating gold swaps as collateralized loans instead of sales also obviates the need to show frequent changes in the volume of gold in monetary authorities’ reserve assets, which, in turn, would affect world holdings of monetary gold as well as the net lending of central banks.

<sup>15</sup> Usually, these are the quoted sales price at the close of trading on the revaluation date.

## Consultations on New Data Category for External Debt in the IMF' Special Data Dissemination Standard

**I**n its second review of the IMF's Special Data Dissemination Standard<sup>1</sup>(SDDS) in December 1998, the IMF's Executive Board approved the introduction of a separate data category for external debt in the SDDS, covering data for three main sectors—general government, the monetary authorities and banks, and nonfinancial public enterprises and the private sector. The data are to be disseminated with further breakdowns, including by maturity, with quarterly periodicity and timeliness. The IMF's Executive Board requested that the IMF staff provide precise proposals on external debt statistics in the SDDS after further consultation with countries, data users, and other international organizations. The separate data category for external debt will be introduced once the IMF determines a suitable transition period for the observance of this data category by SDDS subscribers. The IMF's Executive Board is expected to discuss this issue in March 2000 at the time of its third review of the SDDS.

The IMF staff prepared a detailed questionnaire to gather information from national compilers in the SDDS-subscribing countries on data availability and compilation practices in the area of external debt, to assist in determining a suitable transition period for developing and disseminating the external statistics. The questionnaire was posted on the IMF's Data Dissemination Bulletin Board for the benefit of other countries and data users. All 47 SDDS-subscribing countries, and one additional country, completed and returned the debt questionnaire. The IMF is grateful to compilers for their very helpful comments.

In addition to the responses to the debt questionnaire, the IMF staff will take account of the views of other important stakeholders when preparing the proposals for consideration by the IMF's Executive Board. The staff has consulted with the IMF Committee on Balance of Payments Statistics, selected users, and international organizations. The views of senior policymakers and compilers will be heard at a conference on capital flows data to be hosted by the IMF in February 2000.

The debt questionnaire focused on two important elements—quarterly periodicity and timeliness for data on external debt and information on short-term indebtedness. It was envisaged that, to the extent feasible, the new SDDS data category for debt would be consistent with the framework for international investment position (IIP) statistics in the fifth edition of the *Balance of Payments Manual (BPM5)*. In addition, the questionnaire sought compilers' views on a range of other debt-recording issues that will be covered in *External Debt Statistics: Guide for Compilers and Users*, which is being produced in connection with the work program of the IMF-chaired Inter-Agency Task Force on Finance Statistics.<sup>2</sup> Data compilers and users in the coming year will review a draft of the *Guide*, which updates a 1988 publication.

*IMF solicited views on external debt category in SDDS.*

A brief overview of the responses from compilers of the 48 countries (21 were industrial countries and 27 were developing/emerging market economies) is presented below.

### **Compilers' views on periodicity of disseminating external debt data**

Regarding quarterly periodicity, 70 percent of the respondents from developing/emerging market countries indicated that they currently compile and disseminate either monthly or quarterly external debt and/or IIP statistics. Only 35 percent of the respondents from the industrial countries said they disseminated such data on a monthly or quarterly basis. Although the other industrial countries mostly disseminated annual IIP statistics, they indicated that some debt data were available on a more frequent basis, mainly pertaining to the banking sector and the monetary authorities.<sup>3</sup>

For those countries that compiled a quarterly IIP, the data were disseminated from eight to 17 weeks after the reference period; the average was 12 weeks. This time lag was broadly the same for those countries that only disseminated quarterly external debt statistics. The coverage and detail disseminated, however, varied across countries. Where quarterly IIP or quarterly external debt data were not compiled, most respondents indicated that a period of two to three years might be required to generate the external debt data.

### **Compilers' views on collecting various external debt data**

The debt questionnaire sought information on compilation practices with respect to data on short-term indebtedness on the basis of original maturity (the *BPM5* recommendation) and residual maturity, as well as information on prospective amortization payments falling due for payment in one year or less.<sup>4</sup> The survey responses indicated:

- ▶ Almost all of the respondents were in a position to generate some information on short-term debt based on original maturity (i.e., one year or less at time of issuance). Data were commonly not available for direct investment liabilities (nonequity liabilities), which was especially the case in the industrial countries;<sup>5</sup>
- ▶ About 60 percent of the compilers could compile some information on short-term debt based on residual maturity (i.e., one year or less remaining to maturity). For these countries, the most common gaps were in the area of direct investment liabilities, trade credits, and deposit liabilities of banks; and
- ▶ About 40 percent of the respondents were able to compile some data on prospective amortization payments falling due for payment in one year or less, mostly related to loans and bonds and notes; data were commonly not available for direct investment liabilities, trade credits, and deposit liabilities of banks.

Nearly all of the respondents who reported that they were able to compile data on amortization payments were from the developing/emerging market countries group; they indicated that such information was of great value to their main data users. Some of the respondents who do not compile such data found it difficult to specify appropriate transition periods for the development of data on prospective amortization payments. Most of those that responded indicated that one to two years might be sufficient to develop the data for general government and banks and up to three years for the nonbank sector.

In addition to data availability, the views of compilers were sought on a range of other issues that may facilitate the analysis of a country's external debt position. These issues will be covered in detail in *External Debt Statistics: Guide for Compilers and Users*. The responses to the debt questionnaire showed the following:

- ▶ Some 58 percent of the respondents revealed a preference for a storal presentation of data on external debt compared with only 12 percent who favored the functional presentation—direct investment, portfolio investment, and other investment—recommended for IIP statistics in the BPM5. The remaining countries expressed no preference, as their debt compilation systems could generate data for both classifications or they considered that data should be disseminated on both bases.
- ▶ Some 56 percent of the respondents considered liabilities arising from financial derivative contracts to be a component of external debt, while 27 percent were of the opposite view and the rest were uncertain. Only 30 percent of the respondents indicated that data on these obligations were available in their countries.
- ▶ Put options in securities permit creditors, under certain circumstances, to secure repayment of a medium- or long-term obligation prior to the scheduled maturity. Such instruments may expose a country to external vulnerability. In the debt questionnaire, a quarter of the respondents said it was very important to disseminate information on such derivatives and another third said it was somewhat important to publish data on these positions. Overall, developing countries saw more merit in disclosing such data than the industrial countries.
- ▶ More than 80 percent of the respondents were of the view that it was very important (42 percent) or somewhat important (42 percent) to disseminate information on the currency composition of external debt.
- ▶ Half of the respondents indicated that they valued debt securities at market prices in their IIP/external debt statistics (the BPM5 recommendation) and all but a few of these countries said that this practice provided analytically more useful information on the valuation of external debt than data compiled on the basis of nominal value. About half of the countries that did not employ market valuations in their statistics were

also of the view that market rather than nominal valuations were appropriate for debt statistics.

- More than three-quarters of the respondents were of the view that it was very important (33 percent) or somewhat important (44 percent) to disseminate information on repurchase agreement (repo) liabilities. Overall, only a quarter of the respondents said that separate data on cross-border repo liabilities could be derived from the compilation system(s) in their countries.

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<sup>1</sup> The SDDS, which the IMF established in 1996 and to which countries may subscribe on a voluntary basis, provides a standard for good practices in the dissemination of economic and financial data.

<sup>2</sup> The Inter-Agency Task Force comprises representatives from the Bank for International Settlements, the European Central Bank, the Statistical Office of the European Union, the IMF, the Organization for Economic Cooperation and Development, the World Bank, and the Statistics Division of the United Nations. The task force was created in 1992 to better coordinate activities in the area of finance statistics. The IMF reconvened the task force in July 1998 to discuss the implications of financial crisis for statistics, to review work priorities, and to collaborate more closely on work concerning external debt statistics.

<sup>3</sup> Elements of external debt are separately identified in three other SDDS data categories—analytical accounts of the banking sector, analytical account of the central bank, and central government debt.

<sup>4</sup> The responses were related to data on the liabilities of banks and nonfinancial public corporations and the private sector.

<sup>5</sup> No distinction is made in the *BPM5* between long- and short-term investment for direct investment capital. Nor does the *BPM5* make a maturity distinction for the series on currency and deposits in the other investment category.

## Results of the Coordinated Portfolio Investment Survey

**T**he 1997 *Coordinated Portfolio Investment Survey* (CPIS) was a major statistical initiative in which 29 countries<sup>1</sup> participated under the aegis of the IMF. The results will be released by the IMF soon. The publication contains tables that show how the participating countries allocated their portfolio investment assets among major partner countries; country tables containing CPIS data collected at the national level; and descriptions of the essential features of CPIS implementation in each country.

Countries participating in the CPIS collected information on portfolio investment assets (specifically, cross-border claims mainly in the form of equity and long-term debt securities) as at end-December 1997. The data were disaggregated by type of instrument (equity and debt securities), with geographical detail by country of issuer. For the majority of the participating countries, the CPIS represented the first occasion when such data had been collected in accordance with standardized definitions and methodologies, an approach that enhanced data quality and comparability. Only two-thirds of these countries previously had compiled an international investment position statement, most without any geographic details. To meet the requirements, most compilers introduced major changes and refinements in their data compilation, even those who already collected stock data attributed geographically. Overall, the 1997 CPIS covered portfolio investments of more than 4,000 banks, 8,000 non-bank financial institutions, and 13,000 non-financial enterprises.

### Background

The survey was conducted in response to global asymmetries in reported balance of payments data, especially those in portfolio investment flows. Such asymmetries were originally identified and analyzed in the *IMF Report on the Measurement of International Capital Flows* (Godeaux Report, 1992). The Godeaux Report recommended, inter alia, that an effort be made to undertake a coordinated benchmark survey of international portfolio assets and liabilities broken down by partner country.

The major goal of the 1997 CPIS was to ensure that: (1) all the main investing countries undertook a benchmark portfolio asset survey at the same time; (2) participating countries followed consistent definitions and classifications (by following those of the fifth edition of the *Balance of Payments Manual* (BPM5)); (3) participating countries provided a breakdown of their stock of portfolio investment assets by the country of residency of the nonresident issuer; and (4) countries, to the extent possible, observed the best practices in survey design and implementation. The geographical requirement was intended to permit the construction of a partner-country source for portfolio investment liabilities, albeit with regard given to respecting confidentiality.<sup>2</sup>

*Results of  
IMF-coordinated  
survey on portfolio  
investment soon  
to be available.*

*Results provide insights on global imbalances in portfolio investment assets and liabilities ...*

*...as well as supplement bilateral portfolio investment data for eight countries.*

## Results

The CPIS showed that holdings of portfolio investment assets in the form of equity and long-term debt securities amounted to nearly \$ 5.2 trillion at the end of 1997. The United States, United Kingdom, and Japan were the largest investing countries, accounting for almost 68 percent of such holdings. The shares of the Netherlands, Italy, and France were each 4–6 percent of the total, and those of Sweden, Ireland, Canada, Bermuda, and Belgium were each 1–3 percent of the total.

On average, portfolio investment assets were almost equally allocated between equity and long-term debt securities. About 60 percent of investors' holdings of foreign long-term securities was related to issuers resident in advanced economies. A significant fraction of such holdings, amounting to some 12 percent, was related to securities issued by emerging market countries (mainly Argentina, Mexico, Brazil, Ghana, Korea, China, and Honk Kong SAR). About 4 percent was allocated to offshore centers (Cayman Islands, British Virgin Islands, Netherlands Antilles, and Jersey), and international organizations accounted for about 3 percent. The remaining countries accounted for only 0.2 percent of total reported portfolio investment holdings.

## Analysis

These data, in particular, have been used to investigate two issues. First, global imbalances in portfolio investment assets and liabilities have been reviewed in the light of the evidence made available by the 1997 CPIS and some additional sources of information.<sup>3</sup> Second, the data provided by the eight countries that collected geographical detail on their portfolio investment liabilities have been compared with the corresponding assets reported by their 1997 CPIS partner countries.

Regarding the first issue, the CPIS permitted the identification of additional portfolio investment holdings of \$750 billion. The newly identified assets were largely attributable to investors resident in European and North American countries, reflecting new surveys conducted in some countries for the 1997 CPIS (e.g., Canada, Ireland, Italy, and Spain), and a new benchmark survey in the United States. Bermuda, the only offshore financial center participating, accounted for \$133 billion.

The CPIS also permitted the identification of new liabilities of some \$500 billion, mostly related to offshore centers (45 percent) and emerging market countries (36 percent). As a result of these adjustments, it was estimated that outstanding portfolio investment liabilities in both equity and long-term debt securities were \$9.4 trillion at the end of 1997, and outstanding portfolio investment asset positions were \$7.7 trillion. The difference of \$1.7 trillion represented about 18 percent of total liabilities.



An analysis of bilateral asymmetries (that could only be addressed with reference to the eight countries that collected geographically detailed data on their own portfolio investment liabilities: Australia, Indonesia, Israel, Japan, Malaysia, Netherlands, Portugal, and Spain) indicated that a substantial part of the external liabilities was attributed to intermediary countries with large international financial markets. These results supported the view that it is difficult to derive a reliable breakdown, by creditor countries, of a country's external liabilities based on its own data. They also pointed to the usefulness of the CPIS as a source of such data.

As noted, the size of the global discrepancy between portfolio investment assets and liabilities remained substantial. This could be attributed to a lack of coverage of holdings of portfolio investment assets by households (which some participating countries in the 1997 CPIS considered to be a critical weakness), and the lack of data sources for offshore financial centers and those countries for which no estimate could be made. These considerations underscore the need for a more complete participation of major investing countries in future surveys, including offshore financial centers, that would address the remaining sources of underreporting of global portfolio investment assets, and provide an indication of the reliability of the global data for portfolio investment liabilities.

In addition to shedding some new light on the size of global discrepancies in portfolio investment positions, the 1997 CPIS provided a number of benefits. The main ones were that it has: (1) shown that a coordinated effort could be successfully organized across a large number of countries with respect to the scope, coverage, timing, definitions and concepts used in the compilation of data; (2) provided an effective and efficient vehicle for establishing and spreading good methodological standards worldwide; (3) facilitated a greater understanding of country practices with respect to survey design and alternative approaches to data collection and the exchange of experience in this regard; (4) allowed countries to gain confidence in the data; and (5) facilitated data exchange. In all of this, it has served to spread awareness of *BPM5* and promote and facilitate its implementation. As more countries take steps to compile an annual international investment position, the likely outcome will be improved reporting of stocks and flows of portfolio investment and a reduction in global discrepancies.

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<sup>1</sup> The countries were: Argentina, Australia, Austria, Belgium, Bermuda, Canada, Chile, Denmark, Finland, France, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Korea, Malaysia, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Thailand, United Kingdom, United States, and Venezuela.

<sup>2</sup> In addition to the decision to focus on the asset rather than on the liability side, it was also decided that the main focus of the 1997 CPIS should be on long-term equity and debt securities (i.e., on instruments with an original maturity of more than one year), rather than on

short-term securities and financial derivatives. Data to be provided on a voluntary basis comprised: (1) the geographic attribution of a country's holdings of short-term instruments and financial derivatives; (2) a breakdown of a country's portfolio investment liabilities (i.e., short and long-term instruments and financial derivatives); and (3) other useful attributes of data on the liability side, such as a currency breakdown of nonresidents' holdings of issues by residents, and a sectoral breakdown to indicate the economic sector of domestic investor.

<sup>3</sup> These additional sources were: (1) a *Survey of Country Distribution of Long-Term Securities Held as Foreign Exchange Reserve Assets* (SEFER), conducted by the Fund, (2) a *Survey of Foreign Equity and Long-Term Debt Securities Held by Selected International Organizations*, mainly with respect to pension funds, also conducted by the Fund; and (3) data from the Bank for International Settlements (BIS) on banks' holdings of debt securities reported on a residency basis. When added to the data reported in the 1997 CPIS, these sources brought the total of reported portfolio holdings to US\$6.1 trillion, for which a geographic attribution was available separately for equities and bonds.

## *Invitation To Comment*

### **Accrual Accounting of Interest: The Debtor Approach? The Creditor Approach? The Acquisition Approach?**

One recent debate among data compilers concerns the proper accounting of interest for debt securities (such as bonds), and especially tradeable ones. The issue is :

- Should the accounting of interest of such financial instruments be based on the rate of interest as set at the time the debt security is issued (the so-called “debtor approach”)?
- Or, should interest be calculated based on the market price at which the debt security is acquired by the purchaser, as when it is traded (the so-called “acquisition approach”)?
- Or, should the accounting of interest reflect the ongoing market price of the debt security (the so-called “creditor approach”)?

Under the debtor approach, as set forth in the *1993 System of National Accounts (1993 SNA)*, the accrued interest is represented by the difference between the face value and the issue price of the debt security and the interest is to be distributed over the life of the security.

Under the acquisition approach, as discussed in the fifth edition of the *Balance of Payments Manual (BPM5)*, the accrued interest on a tradeable debt security should reflect the difference between the purchaser’s cost of the security and the value of the security at maturity. The *BPM5* recommends the use of this approach for deep discounted and zero coupon bonds.

The creditor approach proposes that accrued interest be imputed based on the current market price of the debt security, which indirectly reflects the market rate of interest of the financial instrument.

In an effort to enhance the recording of accrued interest in national accounts, balance of payments, and other macroeconomic statistics, the Statistics Department of the IMF has recently posted on the IMF External Web site a number of papers prepared by compilers in various countries discussing the merits of the above-referenced approaches and invited comments from compilers, data users, and other interested commentators. The Web site at which the papers are accessible and to which comments can be provided is <http://www.imf.org/external/np/sta/na/interest/index.htm>.

# Announcing . . .

## *1999 Balance of Payments Statistics Yearbook*

The IMF has published Volume 50 of the *Balance of Payments Statistics Yearbook (Yearbook)*. Balance of payments data are presented in the *Yearbook* in accordance with the standard components of the fifth edition of the *Balance of Payments Manual (BPM5)*, published in September 1993. The *Yearbook* also presents international investment position (IIP) data in the *BPM5* format for those countries that compile them. The IIP of a country is a balance sheet of its external financial assets and liabilities at a particular point in time. The *Yearbook* includes details on most countries' compilation methods and on their data sources used. These descriptions, which are largely based on information countries provide to the Fund, are intended to enhance users' understanding of the coverage, as well as of the limitations, of the country data. They also apprise compilers of data sources and practices of their counterparts in other countries.

As a result of the Fund staff's data conversion work, the *Yearbook* presents in the *BPM5* format both historical data from the Fund's database and more recent statistics reported by member countries still compiling data in the format of the fourth edition of the *Balance of Payments Manual (BPM4)*.

The 1999 *Yearbook* has three parts. Part 1 presents annual balance of payments data for 161 countries and IIP data for 58 countries. Part 2 contains regional and world totals for major components of the balance of payments. Part 3 provides metadata (methodological descriptions) relating to the balance of payments of 143 reporting countries. Part 1 is separately bound; and Parts 2 and 3 are published together.

There are six annexes presenting the standard components of balance of payments and IIP data, the accompanying data codes, and the conceptual framework of the balance of payments. The annexes also explain the coverage of major components of the balance of payments accounts, as set forth in the *BPM5*.

Statistics published in the *Yearbook* are also available on CD-ROM. The number of countries and time series covered in the CD-ROM version is somewhat larger than that appearing in the printed version of the *Yearbook*, as is the number of periods for which data observations of time series are provided. Quarterly data reported by countries are also available on CD-ROM. The CD-ROM includes updates and revisions of data as they become available. Inquiries about the *Yearbook* or CD-ROM should be addressed to:

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