

**IMF COMMITTEE ON
BALANCE OF PAYMENTS
STATISTICS**



**ANNUAL REPORT
1995**

INTERNATIONAL MONETARY FUND

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

ANNUAL REPORT, 1995



INTERNATIONAL MONETARY FUND
Statistics Department

MARCH 1996

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March 1996

ISSN No. 1020-1637
ISBN No. 1-55775-578-7

Please send orders to:
International Monetary Fund, Publications Services
700 19th Street, N.W., Washington, D.C. 20431, U.S.A.
Tel: (202) 623-7430 Telefax: (202) 623-7201



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Annual Report of the IMF Committee on Balance of Payments Statistics

I. Introduction

The IMF Committee on Balance of Payments Statistics was established in 1992 to oversee the implementation of the recommendations contained in the reports of two IMF Working Parties¹ that investigated the principal sources of discrepancy in global balance of payments statistics published by the Fund; advise the Fund on methodological and compilation issues in the context of balance of payments and international investment position statistics; and foster greater coordination of data collection among countries. The membership of the Committee as of year-end 1995 and its terms of reference are presented in Appendices 1 and 2, respectively. In 1995, two meetings of the Committee were held—one in Washington, D.C. (March) and the other in Rome (October).

Of special importance to the work of the Committee this year was the meeting in April 1995 of the Interim Committee of the Board of Governors of the International Monetary Fund, which called for a strengthening of the Fund's surveillance, both over countries that borrow from the Fund and those that do not. Underpinning the surveillance function is the need for timely and comprehensive economic statistics, including balance of payments statistics. The IMF Committee on Balance of Payments Statistics has initiated two major projects to improve these statistics, namely, the conduct of a coordinated portfolio investment survey on the stock of assets in the form of cross-border equities and bonds, and the enhancement of the international banking statistics for use in balance of payments compilation. The IMF Committee on Balance of Payments Statistics believes that these projects hold considerable potential for the development of a statistical database that could assist many Fund members—both industrial and developing countries—to improve information on international movements of capital and/or international investment position statistics.

This annual report is structured as follows: Section II presents the Executive Summary. Section III provides an

overview of statistical discrepancies in the global balance of payments statistics published by the Fund's Statistics Department. Section IV discusses the Committee's work program during 1995, and Section V concludes with a discussion of the issues that the Committee plans to address in the coming year.

II. Executive Summary

Recent Trends in Global Balance of Payments Statistics

Balance of payments statistics reported to the Fund and published in Volume 46 (1995) of the *Balance of Payments Statistics Yearbook (Yearbook)* continue to show large statistical discrepancies in the global current account and the global capital and financial accounts, each of which should, in principle, sum to zero at the world level.

In the global current account, the excess of debits over credits, which had averaged about \$110 billion in 1990 to 1992, narrowed in 1993/1994 to about \$80 billion (0.6 percent of gross current account transactions). The imbalances on trade, income, and current transfers, however, all increased. Most noticeably, in 1994, the imbalance of credits over debits in the trade account widened for the fifth consecutive year.

The new capital account, which covers all transactions that involve the receipt or payment of capital transfers and acquisition/disposal of nonproduced, non-financial assets, showed a small excess of recorded credits. In the global financial account, which covers transactions in foreign financial assets and liabilities, the imbalance of credits over debits widened in 1994 to \$102 billion, but remained below the recent peak of \$134 billion in 1991. The trend of increasingly large asymmetries in the data on portfolio investment was reversed in 1994, after an exceptionally large discrepancy in 1993.

Committee Work Program

Two projects were at the center of the Committee's work program, namely, the conduct of a coordinated

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

Box 1. New Balance of Payments Presentation

In 1993, the Fund published the fifth edition of the *Balance of Payments Manual (BPM5)*, updating the 1977 version. The new edition is the result of an international collaboration to update the methodology of balance of payments statistics and to harmonize it, as far as possible, with the conceptual framework of the revised *System of National Accounts (SNA)* and with IMF statistical systems pertaining to money and banking statistics and government finance statistics.

In 1995, in consultation with its member countries, the Fund's Statistics Department converted its balance of payments database to the methodology and format of *BPM5*. The new presentation was first published, in summary form, in the September 1995 issue of *International Financial Statistics*. As very few countries have begun reporting data to the Fund on the basis of the new format, the conversion of the historical database involved mostly the reclassification of existing time series using a set of conversion keys developed for this exercise. In many cases, there were insufficient data to complete all of the items specified in the new edition.

Some of the notable changes in presentation between the fifth (*BPM5*) and fourth (*BPM4*) editions of the manuals include the following:

- *BPM5* defines the current account as encompassing transactions in goods, services, income, and receipts and payments of current transfers. *BPM4* defined the current account as encompassing goods, services (including income), and all transfers;
- *BPM5* classifies income and services separately; *BPM4* classified income as a subcomponent of services;
- The *BPM4* capital account has been expanded and redesignated as the "capital and financial account" in *BPM5*. The latter designation comprises two major categories. The first is the capital account, which covers capital transfers (included in the *BPM4* current account) and acquisition/disposal of nonproduced, nonfinancial assets; the second is the financial account, which covers direct and portfolio investment, other investment, and reserve assets;
- The coverage of portfolio investment has been expanded in *BPM5* to include short-term securities (included under "other capital" in *BPM4*) and financial derivatives; and
- *BPM5* also provides guidelines for the compilation of data on the international investment position (IIP) and delineates explicit links between the outstanding stock of external financial assets and liabilities, and related transactions.

portfolio investment survey in respect of year-end 1997 and the enhancement of international banking statistics for use in balance of payments compilation. During 1995, considerable progress was made on both projects.

In 1994, the Committee had created a task force to decide upon the technical specifications of the Coordinated Survey. By year-end 1995, the task force had produced a draft survey guide, which not only set out the mandatory features of the Coordinated Survey but also, by drawing on the expertise of members, provided considerable practical advice. Meanwhile, at the request of the Committee, the Managing Director wrote to 41 countries inviting them to participate in the Coordinated Survey; by end-December 1995, 30 countries, including all Group of Ten countries, had expressed a willingness to participate. Finally, during the Committee's meeting in Rome, an agreement was reached on the next stage of the coordination process—when the nature of the project will shift from technical planning at the international level to the detailed preparation at the national level.

Regarding the second Committee project, the Bank for International Settlements (BIS) completed its pilot project of refining the international banking statistics to make them more compatible for balance of payments

purposes. During a meeting of BIS central bank statisticians in October 1995, it was agreed that the results of the project would be made available to balance of payments compilers in BIS-reporting countries and, on request, to compilers in non-BIS reporting countries.

During 1995, the Committee also reviewed the work of the informal expert group it had established to consider the methodological treatment of transactions relating to certain financial derivatives; discussed papers produced by Fund staff on the methodological treatment of capital transfers, insurance service earnings, recording of interest flows on an accrual basis, and reinvested earnings; and shared practical experiences in measuring service earnings of financial institutions, the market valuation of direct investment, and the production of short-term indicators.

The Committee also received reports from the European Monetary Institute (EMI) on the progress toward producing a meaningful extra-European Monetary Union (EMU) financial account and investment income data, based on the conceptual framework contained in the fifth edition of the *Balance of Payments Manual (BPM5)*, and from the Statistical Office of the European Communities (EUROSTAT) on the development of "establishment

Table 1. Global Balances on Current Account, 1988–94

(In billions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994
Current account balance	-66.8	-89.9	-112.4	-116.0	-107.6	-83.8	-78.5
Trade balance	37.0	24.2	34.0	35.0	42.3	59.6	76.5
Services balance	-28.7	-37.9	-46.5	-39.5	-29.5	-19.0	-6.8
Transportation	-33.7	-40.0	-46.2	-47.3	-51.5	-53.1	-56.8
Travel	1.3	3.8	5.2	10.2	7.1	15.9	19.3
Government services	-5.6	-10.7	-10.9	-27.5	-18.6	-6.0	-2.7
Other services	9.2	9.0	5.4	25.0	33.5	24.2	33.3
Income balance	-58.3	-57.2	-67.7	-72.1	-76.7	-79.5	-98.3
Compensation of employees	-8.0	-7.2	-10.3	-9.9	-11.3	-11.7	-14.5
Reinvested earnings	21.3	27.1	50.0	47.4	38.1	44.7	45.4
Other direct investment income	1.6	4.9	-9.7	-1.5	2.6	-2.8	-3.4
Portfolio and other investment income	-73.1	-82.1	-97.7	-108.1	-106.0	-109.8	-125.8
Current transfers balance	-16.8	-19.0	-32.2	-39.4	-43.7	-44.9	-50.0
<i>Memorandum items</i>							
Trade balance as percent of gross goods transactions	0.7	0.4	0.5	0.5	0.6	0.8	0.9
Services balance as percent of gross services transactions	2.2	2.6	2.7	2.1	1.4	0.9	0.3
Income balance as percent of gross income transactions	4.9	3.9	3.9	4.0	4.2	4.3	5.0
Current transfers balance as percent of gross current transfer transactions	4.1	4.5	6.0	6.0	7.0	7.6	8.3
Current account balance as percent of gross current account transactions	0.8	1.0	1.1	1.0	0.9	0.7	0.6

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 46, Part 2 (Washington, D.C., 1995).

trade” statistics (i.e., data on commercial presence in nonresident economies) needed to meet the statistical requirements of the World Trade Organization (WTO) in the context of the General Agreement on Trade in Services (GATS).

III. Recent Trends in Global Balance of Payments Statistics

Introduction

The data published in the 1995 *Yearbook* continue to show large discrepancies in global summations of the balance of payments statistics. Indeed, because of the impact of offsetting errors and omissions on the credit and debit entries, the net errors are not wholly indicative of the magnitude of the measurement errors in the global balance of payments data. Nonetheless, the net measurement errors on both the current and financial accounts in 1994, as in 1993, were notably below their nominal peaks in 1991.

In 1995, the Fund began publishing its balance of payments statistics on the basis of the classification of *BPM5*. This change is explained in more detail in Box 1.

As countries are adopting the methodology of *BPM5* over different timescales, the possibility exists that, while the conversion is in progress, there could be an impact on the magnitude of the asymmetries in some of the balance of payments aggregates. Over time, however, countries’ consistent application of the methodologies contained in the *BPM5* should help reduce global asymmetries.

Global Current Account

The global current account data summarized in Table 1 show an excess of recorded debits over credits of \$79 billion in 1994, broadly the same as in 1993, and significantly lower than in 1990 to 1992. Within the declining current account discrepancy, however, there were widening discrepancies on the trade, income, and current transfer balances.

The discrepancy of recorded credits over debits on the trade account widened for the fifth consecutive year to \$77 billion in 1994. As a percentage of underlying gross transactions, the imbalance has increased from 0.4 percent in

Table 2. Global Balances on Capital and Financial Accounts, 1988–94
(In billions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994
Capital account balance	3.3	4.2	10.2	8.8	12.9	11.8	5.4
Financial account balance	68.4	47.4	90.9	133.5	125.4	80.7	101.8
Direct investment	-11.7	-27.7	-33.5	-40.6	-27.2	-6.6	10.5
Abroad	-168.5	-222.2	-235.0	-194.3	-189.3	-207.3	-202.0
In the reporting economy	156.8	194.5	201.5	153.6	162.1	200.7	212.5
Portfolio investment	-0.5	33.4	31.5	107.7	105.7	216.9	58.2
Assets	-204.8	-290.4	-185.4	-322.0	-352.1	-511.2	-307.0
Liabilities	204.3	323.8	216.9	429.7	457.8	728.1	365.1
Other investment	83.1	54.9	134.2	99.0	74.0	-65.9	122.6
Assets	-440.7	-679.0	-580.7	4.2	-283.7	-458.8	-255.9
Liabilities	523.9	734.0	714.8	94.8	357.7	392.9	378.5
Reserves	-46.4	-61.2	-101.0	-64.9	-66.3	-93.6	-105.3
Liabilities constituting foreign authorities' reserves	43.8	48.0	59.7	32.3	39.2	29.9	15.9
<i>Memorandum items</i>							
Current account balance	-66.8	-89.9	-112.4	-116.0	-107.6	-83.8	-78.5
Net errors and omissions	-4.9	38.3	11.4	-26.4	-30.7	-8.6	-28.7

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 46, Part 2 (Washington, D.C., 1995). In the financial account, no sign in the balances indicates an excess of recorded inflows over outflows; a negative sign indicates an excess of recorded outflows. The data for liabilities constituting foreign authorities' reserves for 1988–89 were derived from information on the composition of reserve flows contained in the *Report on the Measurement of International Capital Flows*; data for 1990–94 were derived from information collected by the Fund from a sample of large reserve-holding countries.

1989 to 0.9 percent in 1994. There has been a noticeable widening since the beginning of 1993; a contributing factor could be the introduction of the new trade reporting system in the European Union countries as a consequence of the development of the internal market in Europe. In the coming year, the Committee will be apprised of further developments in the European trade reporting system and, more generally, will be inviting the United Nations Statistical Division to brief the Committee on its work to harmonize trade statistics with *BPM5* and the *SNA*.

On the income account, the discrepancy in the portfolio and other investment income account also continues to grow, reaching \$126 billion in 1994. Recorded debits continue to exceed recorded credits, reflecting, inter alia, the continued excess of recorded transactions in portfolio and other investment liabilities over assets in the financial account. As a consequence, the imbalance on total income transactions as a percentage of gross income transactions widened in 1994 to 5 percent, having stabilized at about 4 percent in the preceding five years. The problem of accurately measuring investment income transactions has been evident for several years. To improve the quality of these data is one of the objectives of both the Coordinated Portfolio Investment Survey, planned for year-end 1997,

and the project to enhance international banking statistics for use in the balance of payments.

In contrast to the trade and income accounts, the imbalance on the services account narrowed in 1994, for the fourth consecutive year. This occurred despite a widening of the imbalance on transportation services, mostly related to freight. In the travel account, recorded credits continue to exceed debits.

The discrepancy on current transfers has edged up in recent years to reach \$50 billion in 1994. The imbalance on this account, as a percent of the underlying gross transactions, doubled from 4 percent in 1988 to 8 percent in 1994. The main factor behind the imbalance likely represents an excess of recorded debits over credits for government transfers. The reason for this discrepancy is not apparent but may relate in part to problems in the valuation of aid received as well as possible misclassifications between current and capital transfers.

Capital and Financial Accounts

The discrepancy on the new capital account, although modest in absolute terms at \$5 billion in 1994, is large relative to the underlying transactions. This account

was first introduced in *BPM5*, and the creation of mechanisms to compile these data is at an early stage in many countries. While a review of experiences in the collection and compilation of data on transactions in this account is not regarded as a high priority, the Committee intends to include it in its medium-term work program.

In the financial account, the imbalance shows an excess of recorded credits over debits of \$102 billion in 1994, below the peak of \$134 billion in 1991, but larger than the \$81 billion recorded in 1993. In retrospect, 1993 was an unusual year. The imbalances on both the portfolio investment and “other investment” categories in 1993 were sharply divergent from those recorded in other years.

One possible explanation for the surprising 1993 outturn was the sharp increase in security market activity; as dealers funded or hedged their activities, there was a growth in repurchase agreements (repos). There appears to have been asymmetric reporting of repos among countries, with some countries reporting these transactions as collateralized loans and others as security transactions. At a time when activity sharply increased, the impact on the global data of this asymmetric reporting could have been pronounced. In 1994, by contrast, activity in the financial markets weakened, as implied by fewer transactions in both the portfolio investment and “other investment” accounts, and countries began to adopt a more uniform approach to the treatment of the repo activities, although this process is by no means complete.

The excess of reported liabilities over reported assets on portfolio investment in 1994 at \$58 billion was sharply lower than in previous years. The discrepancy in 1994, however, was above that of 1989, a year of similar levels of global activity as measured by transactions in assets and liabilities. Consequently, if it is accepted that the reduction in the size of the discrepancy in 1994 was related to activity, it appears that progress in addressing the underlying cause of the mismeasurement of portfolio investment assets remains slow. It is hoped that the benefits arising from the Coordinated Portfolio Investment Survey will be seen not only in stock data but also in transactions data, through the spread of best practices among countries, implementation of more consistent methodological approaches across countries, and the investigation of potential new data sources.

In the “other investment” balance, the unusual excess of recorded debits over credits in 1993 was reversed in 1994, as the more “normal” trend resurfaced. “Other investment” is a broad category, and there may well be many offsetting errors among different types of capital flows it encompasses. However, the persistent excess of

liabilities over assets may partly reflect the undermeasurement of net assets held by nonbank residents in non-resident banks. In the conclusion of the *Final Report of the IMF Working Party on the Measurement of International Capital Flows* (Godeaux Report), it was recommended that the international banking statistics produced by the Bank of International Settlements (BIS) be refined for balance of payments purposes; this has been one of the principal projects of the Committee to date (see Section IV). Using these data can have a significant impact on reported balance of payments data. U.S. balance of payments data for outstanding assets and liabilities of nonbank U.S. residents with nonresident banks, at end-1993, were revised upward by about \$200 billion, with net assets increasing by \$33 billion, when previous national estimates were replaced by BIS data.

In producing the global aggregates, the Fund adjusts data for portfolio investment and “other investment” liabilities to take account of those liabilities whose counterpart assets are classified as reserve assets (Table 2). The information to make such adjustments is derived from a confidential survey of the instrument composition of reserve assets of the major reserve-holding countries. The data compiled are used only at the global level. The Fund instituted this survey in response to a recommendation in the Godeaux Report. The response to the Fund survey has been good, although the rapid buildup of reserves among nonparticipating countries in 1994 reduced the value of the information received.

Within the direct investment account, the narrowing excess of recorded debits over credits, evident in previous years, became an excess of recorded credits over debits in 1994. This occurred despite a continuing imbalance in the opposite direction of \$45 billion on reinvested earnings; many countries do not compile these data, although a number of major industrial countries are planning the introduction of new compilation systems.

IV. Work Program Undertaken by the Committee—1995

Considerable progress was made on two projects at the center of the Committee’s work program: the 1997 Coordinated Portfolio Investment Survey and the enhancement of international banking statistics. In addition, during 1995, the Committee commented on a range of discussion papers relating to the implementation of *BPM5*; discussed measures of quality control; and received reports on developments in balance of payments statistics at the European level. Also, the informal expert group—established by the Committee to consider the methodological treatment of certain derivative transactions—concluded its work.

The 1997 Coordinated Portfolio Investment Survey

As reported in the 1994 *Annual Report*, the Committee is planning to conduct a coordinated portfolio investment survey of the stock of assets in the form of cross-border equities and bonds in reference to year-end 1997. This survey was recommended by the *Final Report of the IMF Working Party on the Measurement of International Capital Flows* (1992).² The potentially beneficial impact of this initiative is underscored by the continuing large discrepancies in the global balance of payments statistics on portfolio investment capital flows and the difficulties that many countries have encountered in accurately recording the growing volume of cross-border activity in portfolio securities.

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

- To collect comprehensive information, with geographical detail, on the stock of cross-border equities and long-term bonds and notes for use in the compilation or improvement of international investment position statistics on portfolio investment capital (and associated investment income); and
- To exchange, with the assistance of the Fund, the bilateral data collected in the Coordinated Survey.

In 1994, the Committee also requested that the Fund establish a task force comprised of experts in the field of portfolio investment compilation to draw up detailed technical specifications for conducting the Coordinated Survey.³ The Committee set a deadline of end-March 1996 for the task force to complete its work.

Work of the Task Force

The task force has been given an ambitious work program, including the development of a comprehensive survey guide, a draft of which was reviewed during the October 1995 meeting. The focus in early 1996 will be on improving the survey guide both to meet the mandate set by the Committee and to provide information as early as possible to countries participating in the Coordinated Survey. This will ensure the availability of information to compilers well ahead of the reference year-end 1997.

While clearly stating the mandatory features of the Coordinated Survey, i.e., investment by residents in nonres-

ident equities and long-term bonds at market value according to the country of the debtor, and the technical issues that must be addressed, the emphasis in the survey guide is on practical advice. From their own experience, task force members are aware that each national compiler will need to develop a survey to fit his own individual circumstances. For example, prospective compilers will need to decide on major aspects, such as what units to survey and whether to conduct a detailed or an aggregate form of survey. To assist compilers in their decisions, the survey guide explores the advantages and disadvantages of the various approaches, extensively documenting the experience of selected countries when relevant, and providing three model forms as appendices.

Role of the Committee

Following a request by the Committee, in July 1995, the Managing Director wrote to finance ministers and heads of central banks, as appropriate, in 41 countries. As of end-December 1995, 30 countries had expressed a willingness to participate, including all countries in the Group of Ten. The response, from industrial countries and developing countries, including offshore centers, has shown strong support for this important and timely international initiative.

With the task force scheduled to meet its mandate in March 1996, and with the positive responses to the invitations, it is clear that the nature of the project will change during 1996 from technical planning at the international level to detailed preparation at the national level. With this in mind, during the Rome meeting in October 1995, the Fund outlined for the Committee three proposals to help coordinate the project at the international level during the coming year. First, each participating country should nominate a project manager; second, a network of contacts should be established so that those countries who had not previously conducted a survey of this kind could consult, through the Fund, those compilers with experience; and third, the Fund would consider arranging a meeting of all project managers in late 1996 or early 1997 to assess progress and to discuss issues of common concern. The Committee supported these proposals.

In 1995, the Committee also addressed the following technical issues raised by the task force:

- The task force expressed interest in using, for the Coordinated Survey, the International Securities Identification Number (ISIN)—a commercial code developed to facilitate trading and settlement of international securities. However, one key piece of information required for balance of payments purposes (namely, the country of residence of the security issuer in respect of debt securities) is not obtainable from ISIN numbers. If this information

²The Working Group noted that coordinated surveys potentially could help compilers identify errors in cross-border position statistics (and in associated financial flows and investment income transactions) that are presently based, in many countries, on flow cumulations. The Coordinated Survey also could provide better instrument and geographic detail than is currently available to national compilers.

³The composition of the Task Force on Coordinated Portfolio Investment Survey as of end-1995 and its terms of reference are given in Appendices 3 and 4, respectively.

Box 2. BIS International Banking Statistics

The Bank for International Settlements (BIS) maintains two statistical systems that provide information that can be used to monitor and analyze international banking activities. The Quarterly Reporting System gathers data on banks' international assets and liabilities broken down by country, currency, and sector both on a residence or balance of payments basis and on an ownership or nationality basis. These data have considerable potential for improving the coverage and accuracy of national balance of payments and international investment position statistics. The Semiannual Reporting System focuses only on the asset side of banks' balance sheets and seeks information on a worldwide consolidated basis. These statistics provide, inter alia, useful information on the maturity structure of banks' claims on countries outside the reporting area, but are of limited use in balance of payments statistics.

The quarterly international banking statistics are constructed from reports filed by the monetary authorities in the major banking centers on resident banks' cross-border assets and liabilities and their foreign currency positions with residents. At present, information is reported by the 18 industrial countries and 6 major offshore financial centers listed below:

Industrialized reporting countries		Other reporting centers
Austria	Japan	The Bahamas
Belgium	Luxembourg	Bahrain
Canada	Netherlands	Cayman Islands
Denmark	Norway	Hong Kong
Finland	Spain	Netherlands Antilles
France	Sweden	Singapore
Germany	Switzerland	
Ireland	United Kingdom	
Italy	United States	

Because virtually all countries with international banking centers participate in the Quarterly Reporting System, the global coverage is considered comprehensive. In the Semiannual Reporting System, worldwide consolidated data are only reported by the monetary authorities in the 18 industrial countries listed above.

The "derived" data obtained by aggregating the reported data on a country-by-country basis provides fairly comprehensive estimates of nonresident banks' claims on, and liabilities to, the bank and nonbank sectors in some 200 individual countries. As most BIS-reporting countries report an extended currency breakdown of the banking positions, exchange-rate adjusted changes in the positions can be calculated; in balance of payments statistics, these can be used as proxy measures for financial transactions of the resident nonbank sector vis-à-vis nonresident banks. The position data can also be used to estimate investment income accruing to, and payable by, countries on their deposits with, and borrowing from, nonresident banks.

In April 1995, the BIS published an updated version of the *Guide to the BIS Statistics on International Banking*, which was last published in 1988. The new *BIS Guide* contains detailed current country practices regarding the coverage and disaggregation of the data reported to the BIS, and, unlike the earlier version, it also provides the reporting countries with definitions and guidelines for the reporting of data. The reporting system has also been extended to collect additional information in several important areas, which, if implemented by the BIS-reporting countries, would better align the data with balance of payments methodology and provide improved measures of banking transactions. Although the international banking statistics were not established for use in balance of payments compilation, the correspondence between the two sources is often quite close.

were included, the ISIN code could be used by compilers to help ensure consistency of geographic allocation across countries (although it is recognized that the use of ISIN codes varies between different national markets). The Committee is considering ways to apply the ISIN code system to facilitate the Coordinated Survey; discussions are under way with the Association of National Numbering Agencies (ANNA)—the international organization whose national members allocate the ISIN codes.

- During 1995, the Fund produced a short paper clarifying the treatment of repos in the *SNA* and *BPM5*, and proposed a treatment of securities lending. It was evident from the discussion, however, that, on the treatment of repos, there is some ambiguity in the wording contained in the *SNA* and *BPM5*. This has led a number of countries, where this activity is significant, to adopt a treatment of repos that is consistent with current practices in their banking community but is not consistent with the

intention of the drafters of the *SNA* and *BPM5*. Therefore, the Fund has proposed to the Committee that these methodological issues be further discussed with financial statistics experts in an October 1996 meeting that the Fund is planning in conjunction with the finalization of the *Monetary and Financial Statistics Manual*.

International Banking Statistics

The final reports of the two working parties established by the IMF to investigate discrepancies in global balance of payments statistics and to recommend procedures to improve the recording of these statistics urged countries to consult the international banking statistics as a potential data source for the compilation and verification of balance of payments estimates. These statistics provide information, broken down by sector and country of the counterparty, on the international assets and liabilities of banks in the major banking centers. These statistics, discussed in Box 2, can provide balance of payments statisticians with data on resident positions with banks abroad (i.e., loans from and deposits with banks abroad) believed to be poorly measured in other sources in many countries.

The Committee is working closely with the BIS to enhance international banking statistics for use in balance of payments compilation. The Committee is also seeking ways to make these data more widely available to balance of payments compilers, without infringing on the confidentiality of these statistics.

In 1994, the BIS undertook a pilot project to derive changes in banks' assets and liabilities *excluding* their holdings and own issues of long-term securities; this would align the international banking statistics more closely with the balance of payments data for loans and deposits, and thus facilitate their use in balance of payments compilation. By mid-1995, the BIS was able to circulate for comment detailed tables on banks' loans and deposits on the adjusted basis to central banks of industrialized BIS-reporting countries. The results from the pilot project were generally regarded as satisfactory, although not to breach confidentiality restrictions, the breakdown of positions vis-à-vis countries is confined, for the time being, to individual BIS-reporting countries and to broad geographical groups for all other countries.

At the October 1995 meeting of BIS central bank statisticians, it was agreed that the BIS should continue to compute these data, making them continuously available to the reporting central banks for information and review. It was also agreed that the data from the first round of estimation covering year-end 1993 through year-end 1994 could be made available to the IMF and to the balance of payments compilers of the BIS-reporting industrialized countries for their collective assessment as to the usefulness of the data.

As for balance of payments compilers from countries that do not report international banking data to the BIS, the BIS is prepared to consider written requests.

A short note will be included in the IMF *Balance of Payments* Newsletter to inform official compilers of the work at the BIS.

Financial Derivatives

During the year, the Fund established a small informal expert group to provide clarification and guidance on the treatment accorded in the *SNA* and *BPM5* to interest rate swaps and variation margins related to financial derivatives. This initiative arose after compilers in Australia and the United Kingdom researched the feasibility of introducing new statistical collections for data on financial derivatives.

The issues raised in a U.K. paper submitted for consideration by the Committee in October 1994 were complex. In essence, the U.K. paper proposed that net receipts/payments from interest rate swaps should be included in the financial account and not in the current account, as recommended by the international manuals, given the close substitutability between these instruments and other financial derivatives, e.g., interest rate futures, which are included in the financial account.⁴ With regards to variation margins, the U.K. paper noted that, in U.K. markets, ownership of these margins frequently changes hands, and consequently recommended that this change of ownership be recognized as a transaction in financial derivatives in the financial account.

As a starting point, the informal expert group set out to clarify the issues raised by contrasting the views in the U.K. paper with the recommendations contained in the international manuals. The group concluded that while the general approach toward the treatment of financial derivatives in the international manuals is clear, some amplification and clarification was required. The Committee endorsed this position.

Turning to specific conceptual issues raised by the U.K. paper, the group had differing views. Regarding the treatment of net receipts/payments from interest rate swaps, the group was split—some supported the U.K. paper's treatment of these net receipts/payments as transactions in the financial account; others focused on the "effective cost" of borrowing, regarding the true interest rate cost faced by the borrower as inclusive and not exclusive of the interest rate swap. These experts favored leaving unchanged the approach in the *SNA* and *BPM5*, that is, recording the net receipts/payments as investment income.

⁴Similar proposals were made in an earlier paper prepared by the Australian Bureau of Statistics.

The consensus among the informal expert group on the treatment of variation margins was to regard them as deposits owned by the entity who had placed them and not as a transaction in financial derivatives as proposed in the U.K. paper. It was apparent, however, that practice varies in the different markets, and this was reflected in the group's views. The question of how to treat a margin whose ownership has changed hands was not resolved.

Within the Committee, the consensus was against making changes to the conceptual approach in the manuals. This reflected, inter alia, the implementation in a number of countries of reporting systems based on the recommendations in *BPM5*. To negotiate new balance of payments data requirements with suppliers could prove counterproductive for statistical agencies.

Nonetheless, the Committee agreed that ongoing research in this field should be encouraged so that knowledge on this still-developing area of statistics could be spread, and experience in implementing the recommendations of *BPM5* and *SNA* be shared. Thus, the Committee endorsed the Fund's approach to create a new informal group representing different fields of statistics to take forward this work with the objective of producing a final report for the financial statistics experts' meeting the Fund is planning for October 1996 in conjunction with the finalization of the *Monetary and Financial Statistics Manual*.

Fifth Edition of the Balance of Payments Manual

As noted in Section III, the balance of payments data published in the Fund's statistical publications were converted to the format of *BPM5* in 1995. In preparation for this change, the Fund's Statistics Department conducted several regional seminars to provide training to countries in implementing the recommendations of the fifth edition. As of year-end 1995, eight seminars had been given over a three-year period; these were cosponsored by regional international organizations or the national authorities where the seminar was held. Through the Japan Administered Account, the Japanese authorities also contributed significantly to the financing of several seminars. Additional seminars are planned for 1996. Training in the new balance of payments methodology has also been provided to country officials through courses offered by the Statistics Department, the IMF Institute, the Joint Vienna Institute, as well as the Fund's balance of payments technical assistance missions.

In 1995, the *Balance of Payments Compilation Guide (Guide)*, a companion document to *BPM5*, was published. The *Guide* provides practical direction in compiling statistics on the balance of payments and international investment position. The Fund will also publish, in early 1996, the *Balance of Payments Textbook*, a training

tool developed for participants attending Fund courses on balance of payments methodology. The *Textbook* elaborates on some of the conceptual issues discussed in *BPM5* and provides illustrative examples to clarify concepts and other balance of payments recording issues contained in *BPM5*.

During 1995, the Fund's Statistics Department prepared four discussion papers relating to selected areas of balance of payments methodology; these papers' aim was to clarify the guidelines set out in *BPM5* and to assist in their implementation at the national level. In addition, Committee members contributed four additional papers on other balance of payments issues. The discussion papers covered a range of issues, including the following:

- identification of capital transfers;
- recording of insurance transactions;
- recording interest income in accordance with the accrual concept;
- measurement of reinvested earnings on direct investment;
- market valuation of direct investment;
- estimation of earnings of financial intermediaries; and
- defining establishment trade statistics.

The Committee provided extensive comments on a range of conceptual issues raised in these papers as well as on practical considerations dealing with the implementation of the proposed statistical treatment in member countries. Taking into account the views expressed by the Committee, the four Fund papers (first four above) were converted into IMF working papers and will be distributed to the Fund's balance of payments correspondents.

Quality Assessment

At the October 1995 meeting of the Committee, the Australian Bureau of Statistics (ABS) presented a paper on quality assessment. In view of the increased emphasis on the need for accurate, timely, and comprehensive data, this paper was well-timed.

The paper began by defining data-quality concepts and then explained how progress against the concepts can be measured in practice. Two concepts were reviewed: accuracy and reliability. In Australia, four specific indicators and influences are taken into account in reaching a judgment on data accuracy. These include estimation of the sample error, examination of balancing items, analysis of the behavior of related time series, and comparison of Australian data against partner country data for the same time series. Turning to reliability, the ABS regards the extent to which an initially published estimate is re-

vised when it is subsequently republished as a measure of the reliability of the statistics. So revisions are analyzed, using measures of bias—the extent to which initial estimates are lower or higher than the final estimate—and dispersion—the “spread” of estimates. The paper concluded that the use of data-quality indicators is considered important for the ongoing improvement in the quality of the Australian balance of payments statistics.

The presentation generated a favorable response from Committee members, not least because this type of paper helps spread best practice. The Committee requested that a summary of the paper be included in a future edition of the *Balance of Payments Statistics* Newsletter in order to make a wider audience of balance of payments compilers more aware of its existence.

Report of Work at EUROSTAT and the EMI

In the past year, the Committee has been kept abreast of developments at the European level. EUROSTAT presented a paper on establishment trade statistics, i.e., data on commercial presence in nonresident markets. EUROSTAT’s objective is first to identify the statistical requirements of the WTO relating to GATS, and then to determine how the data can be collected. The possibility of collecting these statistics along with balance of payments data was being considered. The Committee welcomed the opportunity to discuss this issue in order to be aware of possible duplicative efforts as regards reporting requirements.

The EMI reported on progress toward compiling meaningful extra-EMU financial account and investment income account balance of payments statistics based on the conceptual framework of *BPM5*. Considerable progress had been made in 1995 in harmonizing various conceptual issues, but some difficult areas remain: accrual accounting, geographic allocation of portfolio investment, and the instrument classification of “other investment.”

The Balance of Payments Statistics Newsletter

The Fund’s Statistics Department published two issues of the *Balance of Payments Statistics* Newsletter in 1995, including articles contributed by both the Fund and Committee members. This biannual newsletter was initiated in 1993 as a means of keeping balance of payments compilers and users of these statistics informed of methodological and other statistical developments occurring nationally and internationally.

Three major themes emerged in the newsletters in 1995: the need for accurate, timely, and comprehensive data; the implementation of improvements to national balance of

payments compilation systems, reflecting, not least, the need to implement *BPM5*; and the planning and preparation for the Coordinated Portfolio Investment Survey.

V. Future Work Program

Since its inception in 1992, the Committee’s work program has included the following central projects: the Coordinated Portfolio Investment Survey and the enhancement of international banking statistics. While the Committee will continue to work on these projects during 1996, the focus of activity is likely to shift from coordination at the international level to implementation by individual national compilers. Similarly, the focus of the work on financial derivatives as far as conceptual (methodological) issues and links to related statistics (banking statistics) are concerned will temporarily pass from the Committee to the new informal group and the meeting of financial sector statisticians planned for October 1996. Accordingly, at its October 1995 meeting, the Committee discussed its medium-term work program. As a result, a formal research program is being drawn up and will be finalized before the Committee’s April 1996 meeting.

From the October 1995 discussion, it is evident that two themes will dominate the Committee’s medium-term work program: an examination of the links between balance of payments and related statistics, and the practical implementation of *BPM5*.

The Committee views the enhancement of links between related statistics as an important element of its work program because it helps reduce respondent burden and duplication of effort in statistical agencies, and improves the analytical usefulness of published data. At the international level, the Committee will be inviting the United Nations Statistical Division to brief the Committee on its work to harmonize trade statistics with *BPM5* and the *SNA*; it will also invite the WTO to apprise the Committee on their statistical requirements in the context of GATS, and their work in this area, including the requirement for establishment trade statistics. The Committee has stressed the need for coordination between the IMF, the UN, and the WTO. Also at the international level, there will be ongoing discussions with the ANNA concerning the ISIN code system.

The Committee supports and acknowledges a general recognition of the conceptual framework contained in *BPM5* but anticipates continuing work arising from its practical implementation. With this in mind, it intends to review the progress countries are making in implementing *BPM5*, following up on the review conducted in 1994. More specifically, the Committee intends to consider the practical implementation issues arising from

the measurement of accrued interest and trade in international services; share experiences in collecting and compiling data on transactions in the capital account; and review the implementation of direct investment recommendations in *BPM5* and the OECD's *Detailed Benchmark Definition of Foreign Direct Investment*.

During 1996, the Fund will work toward the publication of international investment position data. There is growing recognition in the Committee of the importance of these data. The Committee anticipates holding an initial discussion of the practical aspects arising from implementation of *BPM5* recommendations for international investment position data. In addition, the Fund is producing a paper on the reconciliation of position and transactions data for portfolio and "other investment"—arising from questions raised at the 1995 Balance of Payments Methodology course—for the Committee to review; and Canada is preparing a paper on the valuation of debt securities in the international investment position.

At the individual country level, the Committee will receive a report reviewing the practical experience in the Netherlands of reconciling money and banking statistics with the information on banking activity used in the bal-

ance of payments. This paper will be particularly relevant in 1996, given that in October the Fund is planning a meeting of financial statistics experts in conjunction with the finalization of the *Monetary and Financial Statistics Manual*.

Other issues that the Committee is intending to explore include the following: the electronic transfer of data between both supplier and compiler, and national compiler and international organizations⁵; the experience gained in the United Kingdom from providing seminars both to suppliers and users of data; examination of bilateral asymmetries; and a review of the Fund's confidential survey of the instrument allocation of foreign exchange reserve assets.

Finally, the Committee will receive reports of work at the regional level, including the Asia Pacific Economic Cooperation group of countries, and be updated on developments in the European trade reporting system.

⁵In 1994, the Committee monitored the progress at the national and international level to implement EDIFACT, which is a standardized format and codification for the electronic transmission of messages. A growing number of countries are transmitting their balance of payments data to the Fund via EDIFACT.

Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 1995

Chairman

John B. McLenaghan
IMF, Statistics Department

Members

Antonello Biagioli
Ufficio Italiano dei Cambi
Teresa Cornejo Black
Banco Central de Chile
Jean-Baptiste Bourguignon¹
Banque de France
Barbara Dunlop
Australian Bureau of Statistics
Mahinder S. Gill
IMF, Statistics Department
Shinji Isaki²
Bank of Japan
Pim Kramer³
De Nederlandsche Bank N.V.
Caroline Lakin⁴
Central Statistical Office,
United Kingdom
Lucie Laliberté
Statistics Canada
Lau Kak En
Department of Statistics, Singapore
Dominique Nivat⁵
Ministry of Finance, France

Gerald A. Pollack
U.S. Department of Commerce
Rudolf Seiler
Deutsche Bundesbank
Kazuko Tanaka
Ministry of Finance, Japan

Representatives of International Organizations

Peter Bull
European Monetary Institute
Christina Kruse
European Monetary Institute
Peter Richardson⁶
Organization for Economic
Cooperation and Development
Jean-Claude Roman
Statistical Office of the
European Communities
Philip Turner
Bank for International
Settlements

Secretariat

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

¹Succeeded Gérard Béduneau.

²Succeeded Takayoshi Hatayama.

³Succeeded Peter Cornet.

⁴Succeeded Philip Turnbull.

⁵Succeeded Marc Auboin.

⁶Succeeded Nicholas Vanston.

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

1. The Committee will oversee the implementation of the recommendations presented in the *Report on the Measurement of International Capital Flows* and in the *Report on the World Current Account Discrepancy*, advise the Fund on methodological and compilation issues in the context of balance of payments and international investment position statistics, and foster greater coordination of data collection among countries.
2. The Committee will bring to the attention of the Fund new developments that impact on the compilation of statistics of cross-border transactions or related stocks of financial assets and liabilities, and work with the Fund in determining how these activities should be treated in accordance with the *Balance of Payments Manual*.
3. The Committee will investigate ways in which data collection can be better coordinated among countries, with a view, inter alia, to facilitating the exchange of statistics among countries (e.g., bilateral transactions or stock data). It will also identify related areas for study and determine how work in those areas should be carried forward.
4. In carrying forward its work, the Committee will collaborate with other national compilers and with appropriate international organizations.
5. In consultation with the Fund's Statistics Department, the Committee will determine its work program and will meet under Fund auspices at least once a year.
6. The Committee will prepare an annual report for presentation to the Managing Director of the Fund.

Appendix 3
IMF Task Force on Coordinated Portfolio Investment Survey
Composition as of December 31, 1995

Chairwoman

Lucie Laliberté
Statistics Canada

Members

Michael Andreasch
Austrian National Bank
Gunnar Blomberg
Sveriges Riksbank
Jean-François Carbonneau
Statistics Canada
Frieda Donkers
National Bank of Belgium
Barbara Dunlop
Australian Bureau of Statistics
William Griever
U.S. Treasury
Robert Heath
IMF, Statistics Department
Shinji Isaki¹
Bank of Japan
Caroline Lakin
Central Statistical Office,
United Kingdom
Francesco Loi
Ufficio Italiano dei Cambi

Guido Melis
National Bank of Belgium
John Motala
IMF, Statistics Department
Stephen Sabine
Bank of England
Russell Scholl²
U.S. Department of Commerce
Marc Schweitzer
Banque de France
Rudolf Seiler
Deutsche Bundesbank
Robert Sparling
De Nederlandsche Bank N.V.
Kazuko Tanaka³
Ministry of Finance, Japan

Representatives of International Organizations

Ayse Bertrand
Organization for Economic
Cooperation and Development
Christina Kruse
European Monetary Institute
Rainer Widera
Bank for International Settlements

¹Succeeded Toshio Okamoto.

²Succeeded Christopher Bach.

³Succeeded Kiminori Sakamoto.

Appendix 4
Terms of Reference of the
IMF Committee on Balance of Payments Statistics
Task Force on Coordinated Portfolio Investment Survey

1. The IMF Committee on Balance of Payments Statistics intends to coordinate arrangements, primarily among the major industrial countries, for the conduct of coordinated national surveys of cross-border portfolio investment assets (and where feasible, liabilities) in respect of the year-end 1997. The objectives of the survey are twofold:
 - (i) to collect comprehensive information, with geographical detail, on the stock of cross-border equities and long-term bonds and notes for use in the compilation or improvement of international investment position (IIP) statistics on portfolio investment capital. The IIP statistics, in turn, can provide information to check the coverage of recorded estimates of portfolio investment capital flows and associated investment income transactions recorded in the balance of payments; and
 - (ii) to exchange the bilateral data. When the results of the survey become available, the participating countries, with the assistance of the Fund's Statistics Department, plan to exchange these data among themselves and with other countries. By exchanging comparable data (so far as confidentiality constraints permit), participating countries should be able to improve their estimates of nonresident holdings of their portfolio investment liabilities as well as associated capital flows and investment income data.
2. A representative group of collectors and compilers of balance of payments and international investment position data—the Task Force on Coordinated Portfolio Investment Survey—is being constituted under the auspices of the Committee to assist in the conduct of the survey.
3. Under the direction of the Committee, the Task Force will have the following duties:
 - (i) draw up a detailed specification of the minimum amount of information required to achieve the objectives of the survey, including issues of valuation, definition, and classification to be used in the survey and the expected output from the survey;
 - (ii) draw up model questions and notes for inclusion in countries' questionnaires;
 - (iii) draw up a few model survey designs that are consistent with the objectives of the survey and assess their respective costs and merits;
 - (iv) draw up proposals on whether all or parts of the exercise should be the subject of pilot investigations in one or more countries;
 - (v) recommend a timetable for carrying out the exercise, including the preparation and circulation of results; and
 - (vi) examine the means of disseminating survey results, commenting in particular on any confidentiality restrictions.
4. The coverage of portfolio investment should include, at least, equity securities and debt securities (long-term bonds and notes). The Task Force will make every effort to conform to the concepts, definitions, and valuations set out in the fifth edition of the *Balance of Payments Manual*. In carrying forward its work, the Task Force will also take account of the work undertaken by the OECD Working Group on Harmonized Investment Definitions.
5. The Task Force will determine the frequency and timing of its meetings. After each meeting, the Task Force will submit a summary of the discussion to the Committee, and will present a final report to the Committee by March 31, 1996. The Committee may then reconstitute the Task Force to refine the scope of the exercise.
6. The IMF's Statistics Department will act as Secretariat.