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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 Parties\(^1\) 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 December 31, 1996, and its terms of reference are presented in Appendices 1 and 2, respectively. In 1996, two meetings of the Committee were held—one in Washington, D.C. (April) and the other in Singapore (October).

In 1996, the Committee expressed its support for the launch of the Special Data Dissemination Standard (SDDS) by the Fund in response to a request by the Interim Committee of the Board of Governors of the Fund. The standard, which is voluntary, has four features: coverage, periodicity, and timeliness of data; access by the public; integrity of the disseminated data; and quality of the disseminated data. The data categories covered include those viewed as most important for assessing macroeconomic performance and policy. The SDDS prescribes that balance of payments data be published on a quarterly periodicity, within three months of the end of the quarter. A guide to assist countries in their preparations for the implementation of the standard has been produced, and an electronic bulletin board has been established on which members provide information about the data disseminated under the standard.

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 1996, 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 the 1996 Balance of Payments Statistics Yearbook continue to reveal sizable discrepancies in global summations of current, capital, and financial account transactions. In principle, the world current, capital, and financial accounts should each sum to zero, but this does not happen in practice because of different recording practices among countries with respect to coverage, valuation, classification, and timing of cross-border transactions. Although the overall imbalances in the world current and financial accounts have trended downward in recent years, they mask rising imbalances and erratic swings in several standard components that make up these aggregates.

In the global current account, the data show an excess of recorded debits over credits ($82 billion in 1995), which is related mostly to a persistent underrecording of investment income credits from abroad. For global transactions in goods, where the recorded export figures typically exceed recorded imports, the discrepancy has widened substantially in recent years, rising from only $16 billion in 1990 to $115 billion in 1995.

In the global financial account, the recorded values of transactions in foreign liabilities exceeded the corresponding asset measures by $69 billion in 1995, down from a peak of $155 billion in 1991. However, among the standard components that constitute the financial account, the data show widening discrepancies, especially for portfolio investment transactions where recorded inflows (liabilities) exceeded outflows (assets) by nearly $150 billion in 1995.

Committee Work Program

As in previous years, preparations for the conduct of a coordinated portfolio investment survey in respect of year-end 1997 continued to be central to the Committee’s work program. Considerable progress was made.

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In 1994, the Committee had created a task force to decide upon the technical specifications of the Coordinated Survey, with a mandate to report by end-March 1996. The task force met its mandate. It produced the Survey Guide on the Coordinated Portfolio Investment Survey (Survey Guide) to advise on how to conduct a portfolio survey, proposed how to ensure continued cooperation in the project at the international level, and made recommendations regarding the eventual data exchange. With its mandate completed, the task force was dissolved in 1996.

In September 1996, the Fund hosted a meeting of national compilers for the Coordinated Survey. This meeting was attended by 36 compilers from 29 countries. A review of the state of preparation revealed that, in general, many industrial countries are adapting existing collection systems and, therefore, have reasonably well-advanced plans/intentions, whereas among emerging economies, the state of preparation varies. Many country representatives who were at the meeting indicated an intention to collect information in addition to that required for participation in the Survey. The meeting proved an excellent opportunity for compilers to share experience on issues of concern in preparing for a portfolio investment survey, and, in principle, it was agreed that a second meeting would be held during the preparatory stage, perhaps in the middle of 1997.

In the context of the Coordinated Survey, the Committee also discussed in 1996 the coverage of securities held as reserve assets. It decided that the supply of data on these securities would not be linked to country participation in the Survey but that the Fund should organize a separate exercise to collect the required information for year-end 1997.

Work on the methodological treatment of financial derivatives was a central element in the Committee’s work in 1996. The Committee received, and endorsed, the report of the Informal Group on the Measurement of Financial Derivatives, which the Fund convened in April 1996. Further work was accomplished as a consequence of the report, including papers on the issues of financial derivatives and the asset boundary, a statistical definition of financial derivatives, the treatment of net income
III. RECENT TRENDS IN GLOBAL BALANCE OF PAYMENTS STATISTICS

Introduction

The data published in the 1996 Balance of Payments Statistics Yearbook reveal sizable discrepancies in global summations of the balance of payments data reported to the Fund. Although the overall imbalances in world current and financial account transactions have trended downward in recent years, they mask rising imbalances and erratic swings in several standard components that make up these aggregates. It should be noted that discrepancies in some of the balance of payments components may arise because not all countries reporting to the Fund have converted their national systems to the classifications and definitions of BPM5 introduced by the Fund only in 1995 for the publication of balance of payments statistics. At present, about 100 of the Fund’s members report data in the format of BPM5. It should also be stressed that many offsetting errors and omissions are not reflected in the net imbalances shown in Tables 1 and 2.

Global Current Account

The global current account data presented in Table 1 show an excess of recorded debits over credits of $82 billion in 1995, about the same as in the previous two years but down nearly one-third from the levels in the early 1990s. The imbalance in 1995 was equivalent to one-half of 1 percent of the gross value of current transactions. The lower discrepancies in recent years mask a deterioration in the data for several standard components of the world current account, particularly in the recording of investment income—the main contributor to the shortfall in recorded credits—and goods transactions. Recorded investment income payments, excluding reinvested earnings of direct investment enterprises, exceeded receipts by $166 billion in 1995, which was nearly 50 percent higher than the figure recorded in the early 1990s. To improve the quality of these data is one of the objectives of both the Coordinated Portfolio Investment Survey and the project to enhance the international banking statistics for use in the balance of payments.

For goods transactions, the discrepancy is in the other direction, with credits exceeding debits by $115 billion in 1995. The imbalance in the recording of trade flows has widened sharply since 1990, when it amounted to only $16 billion. In the last three years, the imbalance represented 1 percent of the value of gross trade flows. One factor contributing to the imbalances in recent years is the introduction in 1993 of a new trade reporting system in the European Union (EU) as a consequence of the development of a single European market. On January 1, 1993, Intrastat—a survey of businesses that engage in trade with other EU member states—was introduced to replace the customs-based recording system that was employed before 1993. The published data on intra-EU trade show an excess of credits of about $65 billion in 1995, which is believed by Eurostat to reflect an under-estimation of intra-EU imports.
The discrepancy in services transactions has remained relatively stable, averaging $34 billion a year over 1989–95, with debits exceeding credits. However, the imbalances in selected services transactions widened considerably during this period, notably in the measurement of transportation services, where recorded debits exceeded credits by $73 billion in 1995, compared to $41 billion in 1989. For current transfers, recorded debits also exceed credits. The discrepancy averaged some $40 billion a year over 1989–95, representing between 5 percent and 9 percent of the underlying gross transactions. As part of its medium-term work program, the Committee is planning to undertake research into these discrepancies.

**Global Capital and Financial Accounts**

The overall imbalance in the capital account amounted to $11 billion in 1995. This account was first introduced in BPM5, and many countries have not yet adapted their collection systems to gather complete data on these transactions. The bulk of the data reported relates to capital transfers and some overlap may exist with the estimates on current transfers.

The discrepancy in the measures of global cross-border financial flows has declined considerably in the last three years. Recorded financial inflows (liabilities) exceeded outflows (assets) by $69 billion in 1995, down from a peak of $155 billion in 1991. Among the standard components that make up the financial account, there were, however, large swings in the discrepancy in portfolio investment transactions and in other investment transactions excluding direct investment and reserves. Since 1991, there emerged a large positive discrepancy (credits exceed debits) on portfolio investment flows, whereas the positive discrepancy usually seen in other investment transactions contracted during the period.

The Committee, in its work program, is addressing these discrepancies through the Coordinated Portfolio Investment Survey and the project to enhance the international banking statistics for use in the balance of payments. In particular, it is hoped that the benefits arising from the Coordinated Survey will be seen in transactions data through the spread of best practices among countries, implementation of more consistent methodological
iii. recent trends in global balance of payments statistics

box 1. instrument composition of foreign exchange reserve assets

the report of the working party on the measurement of international capital flows (godeaux report), published in september 1992, viewed global discrepancies within individual components of the financial account as providing important clues as to measurement flaws in the system as a whole, especially for securities and banking claims. however, discrepancies within individual components can arise from the asymmetric classification of instruments held as reserve assets: assets are classified as reserve assets, while liabilities are classified by type of instrument, that is, as securities, deposits, etc. to achieve a clearer picture of private sector capital flows asymmetries, the working party conducted a survey of the instrument composition of foreign exchange reserve asset from the creditor side. in other words, they asked creditor countries about the instrument composition of their foreign exchange reserve assets and used the information received to adjust the appropriate liabilities data at the global level in order to produce global data by component. in all, 32 countries participated in the working party’s survey.

encouraged by the information acquired through its survey, the working party, in its final report, recommended that “national authorities should make regular reports, on a confidential basis if necessary, to the fund on the composition of their foreign exchange reserves transactions by type of financial instrument.” the fund followed up this recommendation, and each year conducts a survey of the instrument composition of foreign exchange reserve assets (infer) of the major reserve-holding countries. the information collected is used to compile the global accounts, which are published in table 2 of this report and in the balance of payments yearbook (part 2).

since the infer survey began, the response rate has generally been good. for the 1996 survey (covering 1995 data), 31 countries provided information, and a further 31 provided appropriate information in their standard balance of payments returns to the fund. the respondent countries accounted for about 80 percent of the world’s foreign exchange reserves at year-end 1995. the position data reported in the infer survey are normally consistent, or can be reconciled, with that published in international financial statistics, but in all but a few submissions, the transactions data in the infer survey do not sum to the total foreign exchange reserves transactions data reported in the balance of payments. this discrepancy reflects the use of different compilation systems for the two submissions. where appropriate, fund staff adjust reported infer data to bring them closer to that reported for the balance of payments. the objective of the exercise is to produce the best and most reliable estimates for the instrument composition of the foreign exchange reserves, in order to adjust the instrument composition of the balance of payments at the global level. as total foreign exchange reserves have continued to grow since the godeaux report ($900 billion at end-1991; $1,270 billion at end-1995), the need for the infer survey remains.

approaches across countries, and the investigation of potential new data sources.

the global data on portfolio investment transactions show an excess of recorded inflows of nearly $150 billion in 1995, double the level of the previous year but in line with high levels that emerged in 1992–93. most of the imbalance is centered on bond transactions ($109 billion). although the overall imbalance for other investment transactions is small, the sign of the imbalance shifted to a negative $38 billion (debits exceed credits) in 1995 from a positive $47 billion in 1994. there are several classification issues that may have a significant impact on these standard components, including:

• differences among countries in the recording of cross-border transactions in repurchase agreements (some countries report them as securities transactions [portfolio investment] whereas others record them as collateralized loans [other investment]);
• nonreporting by countries of separate data on transactions in money market instruments as part of portfolio investment, because they have not yet converted to the bpm5 classification; and
• imprecision in the estimation of liabilities constituting foreign authorities’ reserves—data that are essential in order to derive symmetric measures of financial flows in the different categories of financial claims (see box 1). portfolio investment liabilities are likely to be overstated in the global data because some significant reserve-holding countries do not report information to the fund on the instrument composition of their transactions in foreign exchange reserves. also, in other cases, the reported instrument data do not align with the reported balance of payments data.

in general, classification issues, such as the above, have the potential to create greater distortions in the global financial account data than in current account items.

the discrepancy in direct investment transactions has remained relatively small and in most years arises from an underreporting of data on reinvested earnings. at present, only about 75 countries report such data to the
Fund. In 1994 and 1995, there were sizable discrepancies in other direct investment transactions (i.e., excluding reinvested earnings), with credits exceeding debits by $47 billion and $72 billion, respectively.

IV. Work Program Undertaken by the Committee—1996

The Committee had a heavy work program in 1996. Considerable progress was made in preparing for the 1997 Coordinated Portfolio Investment Survey. Most notably, the Survey Guide was published, and a meeting of national project managers was held in September 1996. The Committee also gave high priority to methodological work relating to financial derivatives and to statistics on trade in goods. In addition, the Committee continued to monitor the project to enhance international banking statistics, and it discussed the possibility of sponsoring the development of a securities database for statistical purposes. Progress in countries’ conversion to the classification of the Fund’s BPM5 was reviewed. The Committee also commented on a range of discussion papers and received reports on developments in balance of payments statistics at the regional level.

The 1997 Coordinated Portfolio Investment Survey

As reported in the 1994 and 1995 Annual Reports, countries are planning to conduct, under the auspices of the Fund, a coordinated portfolio investment survey of the stock of assets in the form of cross-border equities and bonds in reference to year-end 1997. This survey was recommended by the Final Report of the IMF Working Party on the Measurement of International Capital Flows (1992). The potentially beneficial impact of this initiative is underscored by the continuing large discrepancies in the global balance of payment statistics on portfolio investment capital flows and the difficulties that many countries have encountered in accurately recording the growing volume of cross-border activity in portfolio securities.

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

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

Also in 1994, the Committee requested that the Fund establish a task force of experts in the field of portfolio investment compilation to draw up detailed technical specifications for conducting the Coordinated Survey. The Committee set a deadline of end-March 1996 for the task force to complete its work. The composition of the task force and its terms of reference are presented in Appendices 4 and 5, respectively. The task force met its mandate. Its final report was discussed by the Committee at the April 1996 meeting.

Final Report of the Task Force

Six specific duties were set for the task force: the first four concerned the need to draw up detailed specifications of information required for countries to achieve the objectives of the survey; the fifth related to setting the timetable for the project; and the sixth to the dissemination of the results. For full details of the task force’s duties, see Appendix 5.

In meeting the first four duties, the task force produced the Survey Guide. The Survey Guide, published by the Fund in August 1996, provides comprehensive advice on how to conduct a portfolio survey. Although produced primarily to assist compilers from those countries participating in the Coordinated Survey, the Survey Guide, by bringing together in one document the expertise of many of the most experienced compilers in this field of statistics, is a publication of value and relevance to any compiler undertaking a survey of portfolio investment. For this reason the Fund sent a copy of the Survey Guide to all its balance of payments correspondents. More information on the Survey Guide is provided in Box 2.

In relation to the timetable, the task force felt it was important that compilers keep the Fund informed of their own national timetable but also that the Fund create the opportunity for national compilers to share and discuss issues of common concern, arising from implementing the Survey, both among themselves and with the Fund. The task force made two important recommendations in this regard: first, the Fund should organize a meeting of national compilers in September 1996; and, second, the Fund should establish a network of compilers.

The Committee accepted these recommendations. In early September, the Fund hosted a meeting of national compilers at which 36 country representatives attended from 29 of the 37 countries that have indicated a willingness to participate in the Survey. A review of the state of preparation revealed that, in general, many industrial countries are adapting existing collection systems and therefore have reasonably well advanced plans/intentions, whereas among emerging economies, the state of prepara-
Box 2. Survey Guide on the Coordinated Portfolio Investment Survey

The Survey Guide was written to assist national compilers in preparing for the Fund’s 1997 Coordinated Portfolio Investment Survey (referred to henceforth as the Coordinated Survey). It should be a valuable source of information for compilers of any country embarking upon a portfolio investment survey.

The Survey Guide has two main purposes:

- to set out the objectives of the Coordinated Survey; and
- to provide practical advice on how to prepare, organize, and conduct the national survey.

Comprised of four chapters plus eight appendices, the Survey Guide is arranged as follows:

- The first chapter presents the purpose, scope, and modalities of the Coordinated Survey.
- The second chapter covers collection methods, the potential units to be surveyed, and the degree of detail required. Practical experience clearly indicates that there is no one best method of compiling portfolio investment data; each country must take account of its own financial structure and particular circumstances.
- The third chapter covers a variety of technical issues that a country must address when conducting a survey. These include the treatment of different types of securities, the method of geographic attribution, the valuation of securities, the difference between direct and portfolio investment, and the treatment of particular types of transactions that could cause double counting. The Survey Guide strongly emphasizes the practical approach to these issues.
- The fourth chapter covers the practical issues associated with preparing for a national survey. These include setting a timetable, taking account of the legal and confidentiality issues raised, developing a mailing list, choosing from types of software packages that can be used, and maintaining quality control checks.
- Finally, the appendices provide three model survey forms—one for a survey of custodians and end-investors on a security-by-security basis; the second, for an aggregate survey of custodians and end-investors; and the third, for an aggregate survey of end-investors. The appendices also include a short summary of the Coordinated Survey’s objectives that can be presented to potential respondents, a glossary of security terms, flowcharts on client/custodial relationships, a listing of the major security databases that national compilers may find useful in their work, and a method for reconciling portfolio investment position and transactions data.

IV. WORK PROGRAM UNDERTAKEN BY THE COMMITTEE—1996

tion varies. Many country representatives who were at the meeting indicated an intention to collect information in addition to that required for participation in the Survey.

The meeting proved an excellent opportunity for compilers to share experience on issues of concern in preparing for a portfolio investment survey. Indeed, the degree of interaction and discussion among participants was notable. The Fund is facilitating contact on an ongoing basis by establishing the network of compilers, as recommended by the task force. This will allow inexperienced compilers the opportunity to raise issues and problems with a wider audience. Also, there was agreement, endorsed by the Committee, to hold a second meeting, in the middle of 1997, to resolve action points arising from the first meeting, to consider the experiences gained from pilot projects being run in a number of countries, and to focus on other issues that emerge over the coming months.

Concerning the dissemination of the results, the task force made five recommendations: The Fund should be provided with documentation on how countries conducted their survey, on its scope, and on the quality of data compiled; the Fund should act as the central clearinghouse for the provision of data among countries, respecting confidentiality constraints; bilateral comparisons of data were to be encouraged; the project should be targeted for completion in 1999; and the Fund should write to nonparticipating countries informing them of the completion of the Coordinated Survey project and the availability of data. Finally, following the completion of the Coordinated Survey, the task force recommended that the Fund’s Statistics Department prepare for the Committee a paper evaluating from a technical viewpoint the conduct of the Coordinated Survey, drawing out in particular the lessons learned, with a view to recommending possible future steps designed to improve statistics on international portfolio investment.

The Committee accepted all the recommendations of the task force. With its mandate completed, the task force was dissolved.
Securities Held as Reserve Assets

In 1996, the Committee addressed the issue of the coverage of securities held as reserve assets within the context of the Coordinated Survey. Information on these securities is important for the bilateral exchange of data, because excluding these securities would cause a significant understatement of portfolio investment liabilities, particularly for those countries whose securities are commonly held as reserve assets. The bilateral exchange of information is an important element of the Coordinated Survey.

The Committee decided that the supply of data on securities held as reserve assets would not be linked to country participation in the Coordinated Portfolio Investment Survey but that the Fund should organize a separate exercise to collect the required information for year-end 1997. The Committee agreed that as a first step, the Fund would write to the appropriate national authorities of significant reserve-holding countries during 1997 explaining the importance and purpose of the exercise and asking for their support.

Financial Derivatives

During 1996, discussions on the methodological treatment of financial derivatives were an important element in the Committee’s work program. When the 1993 System of National Accounts (1993 SNA) and BPM5 were drafted in 1992, only a limited number of statisticians were knowledgeable about financial derivatives, and few, if any, had experience in collecting data. As experience deepened and became more widespread, there inevitably were requests for clarification and amplification of the text of the 1993 SNA and BPM5.

In 1994, the Committee created a small informal expert group to provide clarification and guidance on the treatment accorded in the 1993 SNA and BPM5 to interest rate swaps and variation margins related to financial derivatives. This group reported to the Committee in 1995. Out of this work arose the idea of creating a new informal group representing different fields of statistics to review experience in applying the new balance of payments and 1993 SNA standards and to advise on issues related to implementation with the objective of amplifying or clarifying the methodologies as needed.

The Informal Group on the Measurement of Financial Derivatives met in April 1996. Among its members were experts in national accounts, balance of payments, and monetary and financial statistics, as well as a representative from the U.S. Financial Accounting Standards Board (FASB). Officials from the Fund’s Research Department were also present. The meeting produced a report that included a set of recommendations that was presented to the Committee and to the IMF Expert Group on Monetary and Financial Statistics, which met, in November 1996, in conjunction with the finalization of the Manual on Monetary and Financial Statistics. The Informal Group made only recommendations; any changes to the methodology contained in the 1993 SNA can be initiated only by the Intersecretariat Working Group on National Accounts.

In reviewing experience in implementing international standards, the Informal Group concluded the following: Cooperation among all national statisticians collecting financial derivatives data (e.g., banking, financial accounts, or balance of payments data, etc.) should be encouraged; and supervisory and accounting requirements, such as those used to mark derivative instruments to market, have assisted economic statisticians in the collection of position data. The Group also concluded that separate approaches to reporting entities are required, because the needs of economic statisticians and banking supervisors for financial derivatives data differ; for instance, supervisors require data on a global consolidated basis, whereas economic statisticians require data on a residency basis.

With regard to clarification and amplification of the international standards, the Informal Group focused its discussions on those issues of most concern. These encompassed the inclusion of financial derivatives within the financial asset boundary; the possible need to develop a definition of financial derivatives to facilitate delineation of the financial asset boundary; the possibility that, in principle, derivatives could exist within a number of financial asset categories; the conceptual treatment of instruments that could give rise to property income flows—in particular, interest rate swaps and forward rate agreements (FRAs); and marging arrangements in national markets. In addition, participants shared experiences on the treatment of repurchase agreements and securities lending arrangements. Many participants noted the convergence of treatment of these transactions as collateralized loans.

The Committee discussed the methodological issues arising from the Informal Group’s report at its October meeting. In particular, the Committee addressed the issues of financial derivatives and the asset boundary, the treatment of net settlements arising from interest rate swap contracts, and marging arrangements.

The Committee focused its attention on the treatment of interest rate swaps. A joint paper written by the Australian Bureau of Statistics, the Bundesbank, and the Bank of England made the case that these net settlements should be classified as financial, rather than as current account, transactions, as recommended in the interna-
tional manuals. The main argument in the 1993 SNA and BPM5 in favor of including these net settlements in the current account is that end-users enter into interest rate swaps to alter the cost of capital and, hence, the effective interest rate paid. The authors of the joint paper felt that the expansion of interdealer business and the associated decline in the proportion of trades directly involving end-users has substantially broken the link between settlement payments and the cost of capital. The authors felt that the tendency in markets is to regard the holding of an interest rate swap contract as the acquisition of a financial asset/liability for which the return comes in the form of trading gains and losses. The authors proceeded to provide further justification for their argument both on conceptual and practical grounds.

Committee members were impressed by the quality of the arguments displayed in the joint paper. However, no consensus was reached. Some members supported the central proposition of the paper, while others expressed reservations.

The large majority of experts at the mid-November meeting of the Expert Group on Monetary and Financial Statistics favored the change of recording settlement payments on interest rate swaps and FRAs as financial account transactions in derivatives. It was agreed that this issue would be placed on the agenda of a second informal group meeting of experts in the measurement of financial derivatives, to be held probably in the spring of 1997. The Fund will prepare a paper for this second meeting, which will bring together the various strands of work undertaken in this field, with the intention of placing an agreed paper before the Committee at an autumn 1997 meeting, and then before the Intersecretariat Working Group on National Accounts for possible changes in the 1993 SNA.

Trade in Goods

In its work program, the Committee gave greater prominence to trade in goods statistics than in previous years. This reflected partly methodological work in progress in other fora and partly the desire of the Committee to encourage harmonization between this other work and the methodology 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. In addition, the increasing imbalance in recent years in the global trade in goods account warranted closer examination.

In May 1996, an Expert Group meeting on trade statistics was convened by the United Nations with the purpose of revising the Manual on International Merchandise Trade Statistics, Concepts and Definitions (Trade Manual). In advance of this meeting, a representative from the United Nations’ Statistical Division briefed the Committee on the proposed revisions and gave members the opportunity to comment.

The revised Trade Manual moves toward harmonization with the concepts contained in BPM5, although differences remain. These differences arise primarily for practical reasons. For instance, while BPM5 recommends that imports and exports be recorded on an f.o.b. (free on board) basis, many countries (80 percent) still record imports on a c.i.f. (customs, insurance, and freight) basis, because these values are more readily available. The Committee was divided on the appropriateness of retaining these differences. Some members argued for complete correspondence between BPM5 and the trade statistics manual; others stressed the needs of the various different users of trade statistics and the need for a practical approach.

The Expert Group meeting asked the United Nations’ Statistical Division to redraft the Trade Manual so that the concepts and definitions in the 1993 SNA and BPM5 were noted, but it was recognized that the use of customs administrative records were the predominant source of data. The final draft of the Trade Manual could be available in 1997.

The Committee received reports on the new European trade reporting system in EU countries and on the recording of trade statistics in Russia.

The European trade reporting system—Intrastat—was introduced in 1993 to replace customs-based data when customs barriers were removed as part of the single European market project. The Intrastat system utilized the value-added tax system to identify cross-border trade in goods. However, there were some initial problems in introducing the new system. There were concerns over the quality of the data provided and the timeliness of reporting. The system was also seen as adding to the statistical burden on the business community. Some of the initial problems have been addressed nonetheless, and trade statisticians are considering both short- and long-term measures to further improve the system. These range from, in the short term, simplifying the product nomenclature to, in the long term, each country collecting only export data and swapping the information for import data. The introduction of the Intrastat system has introduced many issues, including that of coordination among statisticians in different but related fields, the problems inherent in introducing new reporting systems, the extent to which micro- and macroeconomic statistical needs have to be considered, and the advantages of collecting trade data at the border.
The presentation on the Russian trade reporting system raised a different issue: capturing the activity of residents who purchase merchandise goods abroad and bring them back for sale in the domestic economy, that is, so-called “shuttle trade.” For Russia, the amounts involved are significant, covering about 23 percent of total imports. This activity affects neighboring countries’ data as well. The Committee will discuss this issue in more depth in 1997.

**International Banking Statistics**

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

The Committee has worked closely with the Bank for International Settlements (BIS) to enhance international banking statistics for use in balance of payments compilation. 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. After circulating the results of the pilot project to, and consulting with, its member central banks, the BIS agreed to make the results from the first round of estimation, covering end-1993 through end-1994, available to the Fund and to the balance of payments compilers of the BIS-reporting industrialized countries for their collective assessment as to the usefulness of the data.

At the request of the Committee, the Fund, in early and mid-1996, wrote to balance of payments compilers from countries that do not report international banking data to the BIS, informing them of the potential availability of data from the BIS on written request and providing them with written information, made available by the BIS, on how international banking statistics are compiled. Also, the Fund published an article in the June 1996 issue of the *Balance of Payments Statistics* Newsletter on the work of the Committee and the BIS in this field of statistics. Separately, the BIS conducted a survey of the 18 industrialized reporting countries, which showed that one-third of the countries used the BIS banking statistics in balance of payments compilation or for checking purposes; another five countries made use of the data for various analytical purposes; and many of the others indicated that they wished to use the BIS data in the future depending on the quality of the data. Almost all the countries indicated that they would like to receive the banking data excluding securities on a regular basis.

Work on improving the usefulness of the international banking data for balance of payments purposes continues. A number of countries represented on the Committee refined their data or provided additional information in 1996. In addition, some offshore centers have indicated that they would consider expanding their reporting systems in the future.

**Securities Database**

In conducting its work on the Coordinated Portfolio Investment Survey, 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. The Fund and the European Monetary Institute (EMI) jointly, with the support of the Committee, started discussions in 1995 with the international organization—the Association of National Numbering Agencies (ANNA)—whose national members allocate the ISIN codes. While ANNA felt unable to alter the ISIN code, it did raise the possibility of opening its extensive security databases to statisticians.

In the light of ANNA’s willingness to cooperate, the Committee in 1996 considered the possibility of sponsoring the development of a securities database for statistical purposes. The proposed database would be a step toward resolving some of the problems related to the collection and harmonization of portfolio investment statistics and perhaps also reduce the reporting burden of respondents. The Ufficio Italiano dei Cambi (UIC) generously offered to take the lead role and developed the nucleus of a database, which was presented to Committee members in October.

Committee members were impressed by the demonstration from the UIC, but there were some questions raised. These included the costs of accessing ISIN code information given that the code is the intellectual property of the national numbering agencies, the way in which coverage could be extended, and the further steps
that would be required vis-à-vis ANNA. The UIC felt that each of these issues could be addressed to the satisfaction of economic statisticians. Subsequently, the Committee members, while recognizing the ambitious nature of the project, also saw the importance of continuing this initiative.

One important factor behind the Committee’s decision was the view of the national compilers for the Coordinated Survey. At their September meeting, the compilers had indicated the desirability of a common securities database to ensure consistent and common classification of securities across countries. Thus, the Committee recognized that it might be possible to use the UIC database for the Coordinated Survey if the ongoing initiative covered the securities that, in value terms, are most significant in cross-border trading and focused, in the case of each such security, on the characteristics essential to meeting the needs of the Survey. The Committee also proposed that national compilers be invited to edit the list of their nations’ securities in developing the database in time for the mid-1997 meeting of national compilers. Progress could then be reviewed. In addition, discussions could begin with ANNA on statistical use of their information. The Committee felt that setting clear and limited objectives and allowing for review would increase the chances of success for this ambitious project.


The Fund’s statistical publications included for the first time, in 1995, balance of payments data according to the classification system of BPM5, followed in 1996 by the available international investment position (IIP) data. In preparation for these changes, the Fund’s Statistics Department conducted several regional seminars to provide training to countries in implementing the recommendations of the fifth edition. As of end-1996, 12 seminars had been given over a four-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 1997. 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, and the Joint Vienna Institute, as well as through the Fund’s balance of payments technical assistance missions.

In 1996, the Balance of Payments Textbook was published. Like the Balance of Payments Compilation Guide, the Textbook is a companion document to BPM5. The Textbook provides illustrative examples and applications of concepts, definitions, classifications, and conventions contained in BPM5 and affords compilers with opportunities for enhancing their understanding of the relevant parts of BPM5. The Textbook is one of the main reference materials for training courses in balance of payments methodology.

In 1996, the Committee reviewed both the progress countries were making in reporting balance of payments and IIP data to the Fund on the basis of the classification system of BPM5 and the use of electronic reporting. The progress is encouraging. For the 1996 Balance of Payments Yearbook (BOPSY), over 100 countries reported balance of payments data using the coding system of BPM5, while about 50 countries reported to the Fund in electronic form. Reporting IIP data on the basis of BPM5 is not as advanced; for the 1996 BOPSY, only 35 countries reported data. There is growing recognition in the Committee of the importance of IIP data.

Country Papers

The Fund recognizes that since the Committee’s formation in 1992, there have been many excellent papers presented to the Committee from national representatives on their own national practices. Some of these papers have been summarized in the Fund’s biannual Balance of Payments Statistics Newsletter, but the Fund now intends to develop a procedure whereby complete versions of these papers are available to an even wider audience. During 1996, the papers presented by country representatives included the following:

- foreign portfolio investment in Canadian bonds;
- measuring accrued interest on transactions in bonds in France;
- comparison of the bilateral balances of payments between Germany and Portugal;
- sample survey on Italian international tourism;
- electronic processing of data in Japan;
- reconciliation of money and banking and balance of payments statistics in the Netherlands;
- quality control of balance of payments statistics in the Netherlands; and
- links with suppliers and users of statistics in the United Kingdom.

Developments at the Regional Level

In the past year, the Committee has been kept abreast of developments at the European level and among the Asia-
Pacific Economic Cooperation (APEC) economies. The EMI reported on progress toward compiling balance of payments financial and income accounts data for stage III of the European Monetary Union (EMU). The requirements were set out in July 1996. Countries will be expected to provide monthly, quarterly, and annual balance of payments data. For monthly data, only certain key items will be required. The quarterly and annual data requirements follow the conceptual framework of BPM5. Annual IIP data will also be required.

The Committee was also kept abreast of the work of the Trade and Investment Data Review Working Group of the APEC economies. The issues addressed by this group during 1996 were the development and management of a near comparable APEC trade and investment database, the supply of bilateral merchandise trade data, and work on matrices of bilateral data on services, trade, and direct investment.

The Balance of Payments Statistics Newsletter

The Fund’s Statistics Department published two issues of the Balance of Payments Statistics Newsletter in 1996, including articles contributed by both Fund and Committee members. Reflecting the objective of keeping balance of payments compilers and users of these statistics informed of statistical developments, the Newsletter gave particular emphasis to the establishment of the Fund’s Special Data Dissemination Standard, the work of the Committee, and the Coordinated Survey.

V. Future Work Program

In 1996, the Committee developed a medium-term work program, set out in Appendix 3, to guide its work. Subjects are ranked by priority. The rankings are not intended to reflect the absolute importance of each topic but rather to reflect the relative priority assigned to each topic by the Committee, given the limited time available for research and investigation.

As in previous years, the top-priority subject for the Committee remains the preparation for the Coordinated Portfolio Investment Survey. The other top-priority subjects are the methodological work related to financial derivatives, the conceptual framework and measurement of trade in services, and harmonization of international trade statistics. The Committee views the harmonization of concepts and development of links between related fields of statistics as important, not least to help reduce respondent burden and the duplication of effort in statistical agencies. With this in mind, the Committee will continue to monitor developments in the revision of the United Nations’ Trade Manual and invite a representative from the World Trade Organization (WTO) to discuss the needs of the WTO for trade-in-services data.

As high-priority subjects, the Committee supports a joint Fund/OECD questionnaire on the implementation of the recommendations of the international manuals with regard to direct investment. This questionnaire, to be sent to all Fund and OECD member countries, will cover implementation issues relating to income, transactions, and investment positions. This work reflects the continuing growth in importance of direct investment activity. The securities database project will be a high-priority subject, as with the monitoring of the implementation by countries of the recommendations of BPM5. The Committee will also give high priority to reviewing the implementation of the principle of accrued interest. The introduction of accrual accounting was one of the most important changes introduced in BPM5 and in the 1993 SNA. In relation to income, there has been considerable interest among countries represented on the Committee to share experiences and to clarify the concept.

The Fund intends to survey a selected group of countries with regard to current and capital transfers data, an area of growing asymmetries at the global level and one that has hitherto received little attention. Other medium-priority issues include a review of the measurement of insurance services, an update of the work by the BIS to refine international banking statistics, and a possible Fund paper on IIP data. Some Committee members also expressed an interest in learning of progress achieved by national accounts statisticians on developing estimates for financial intermediation services indirectly measured (FISIM). This concept was introduced in the 1993 SNA and is equivalent to reclassifying a portion of interest as financial services. Reflecting the views of national balance of payments compilers, this concept was not recommended in BPM5. Difficulties in measuring imports, in particular, led balance of payments statisticians away from the recommendation. But national accounts statisticians have made progress, and the Committee believes that it should keep abreast of developments in this field.
Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 1996

Chairwoman
Carol S. Carson
IMF, Statistics Department

Members
Antonello Biagioli
Ufficio Italiano dei Cambi
Teresa Cornejo Black
Banco Central de Chile
Jean-Baptiste Bourguignon
Banque de France
Stuart Brown¹
Office for National Statistics,
United Kingdom
Barbara Dunlop
Australian Bureau of Statistics
Mahinder S. Gill
IMF, Statistics Department
Reiko Gonokami²
Bank of Japan
Koichi Ishikura³
Ministry of Finance, Japan
Pim Kramer
De Nederlandsche Bank N.V.
Lucie Laliberté
Statistics Canada
Dominique Nivat
Ministry of Finance, France

Gerald A. Pollack
U.S. Department of Commerce
Rudolf Seiler
Deutsche Bundesbank
Sergei Sherbakov
Central Bank of Russia
Soon Teck Wong⁴
Department of Statistics,
Singapore

Representatives of International Organizations
John Bispham⁵
Bank for International Settlements
Peter Bull
European Monetary Institute
Christina Kruse
European Monetary Institute
Peter Richardson
Organization for Economic Cooperation and Development
Jean-Claude Roman
Statistical Office of the European Communities

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

¹Succeeded Caroline Lakin.
²Succeeded Shinji Isaki.
³Succeeded Kazuko Tanaka.
⁴Succeeded Lau Kak En.
⁵Succeeded Philip Turner.
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 BPM5.

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

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

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

6. The Committee will prepare an annual report for presentation to the Managing Director of the Fund.
# Appendix 3

Medium-Term Work Program of the IMF Committee on

<table>
<thead>
<tr>
<th>Subject</th>
<th>Issue</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Priority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coordinated Portfolio</td>
<td>Preparations for the conduct of the year-end 1997 Survey.</td>
<td>Report on the meeting of national compilers to be held in Washington in June 1997; progress report on collecting data on securities held as reserve assets.</td>
</tr>
<tr>
<td>Financial Derivatives</td>
<td>Conceptual and measurement issues; coordination with work at the BIS.</td>
<td>Review report from the 1997 Informal Group meeting; BIS to update on implementation of Yoshikuni Group report, and EMI paper on recording of financial derivatives in Monetary Union balance of payments.</td>
</tr>
<tr>
<td>Trade-in-Services Statistics</td>
<td>Conceptual framework/classification and measurement; including financial services.</td>
<td>The WTO to be approached in 1997 to brief on its requirements on trade in services. Papers from Canada and the United Kingdom on implementation of BPM5 recommendations on services. Information paper from Italy on travel.</td>
</tr>
<tr>
<td><strong>High Priority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>Practical application of BPM5 recommendations.</td>
<td>Possible Fund survey on practical implementation.</td>
</tr>
<tr>
<td>Direct Investment Earnings</td>
<td>Extent of implementation of BPM5, and exchange of experiences in compiling these data.</td>
<td>Fund/OECD survey in 1997 of implementation of BPM5/OECD Benchmark Definition of Foreign Direct Investment. Paper from Chile on re-invested earnings.</td>
</tr>
<tr>
<td>Including Reinvested Earnings</td>
<td>Update on implementation.</td>
<td>Update of IMF paper on BPM5 reporting to the Fund. Papers from Canada on BPM5 implementation; paper from Japan on new forex regulations and balance of payments.</td>
</tr>
<tr>
<td>Securities Database</td>
<td>Discussion with ANNA and development of statistical database.</td>
<td>Review outcome of June 1997 compilers meeting. Progress reports from Italy and EMI.</td>
</tr>
<tr>
<td><strong>Medium Priority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measurement of Insurance Services</td>
<td>Country experiences arising from the practical application of the BPM5 recommendations.</td>
<td>Papers from Canada and Eurostat.</td>
</tr>
<tr>
<td>International Investment Position</td>
<td>Development of IIP statistics.</td>
<td>IMF and EMI papers.</td>
</tr>
<tr>
<td>International Banking Statistics</td>
<td>Use and improvement of international banking statistics.</td>
<td>BIS paper.</td>
</tr>
<tr>
<td>Capital and Current Transfers</td>
<td>Growing asymmetries in global data.</td>
<td>Fund survey of selected countries.</td>
</tr>
<tr>
<td><strong>Low Priority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality Assessment and Data Standards</td>
<td>Country work assessing quality; IMF data standards.</td>
<td>IMF verbal report to the Committee.</td>
</tr>
<tr>
<td>Bilateral Comparisons</td>
<td>Bilateral comparisons of data, with particular emphasis on bilateral asymmetries on direct investment.</td>
<td></td>
</tr>
<tr>
<td>Establishment Trade Data</td>
<td>Discussion of developments including determination of domestic and foreign control.</td>
<td>Eurostat.</td>
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<tr>
<td>Deflators</td>
<td>Discussion of appropriate deflators for international services.</td>
<td>OECD.</td>
</tr>
</tbody>
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Appendix 4
IMF Task Force on Coordinated Portfolio Investment Survey
Composition as of March 31, 1996

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 Grieve
U.S. Treasury
Robert Heath
IMF, Statistics Department
Shinji Isaki
Bank of Japan
Caroline Lakin
Office for National Statistics,
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 Scholl
U.S. Department of Commerce
Marc Schweitzer
Banque de France
Rudolf Seiler
Deutsche Bundesbank
Robert Sparling
De Nederlandsche Bank N.V.
Kazuko Tanaka
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
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 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 BPM5. 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 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.