Chapter 1. Introduction

Contents   Page

I. Purposes of the Manual

1.1.   The main purpose of the *Monetary and Financial Statistics Manual and Compilation Guide* ("*Manual*" hereafter) is to offer guidelines for the compilation and presentation of monetary and financial statistics (MFS), with compilers and users of such statistics as its focal target audience. The *Manual* is also useful to compilers and users of other macroeconomic statistics in understanding the relationships among the various macroeconomic datasets.

1.2.   This *Manual* combines and updates the concepts, definitions, and recommendations contained in the 2000 *Monetary and Financial Statistics Manual* (*MFSM*) and the 2008 *Monetary and Financial Statistics Compilation Guide* (*MFS Guide*). The *Manual* offers a set of tools for identifying, classifying, and recording stocks and flows of financial assets and liabilities. At the same time, it assists compilers responsible for monetary data collection at the national level with practical recommendations on the classification, valuation, and sectoring of financial assets and liabilities for monetary statistics purposes, with special emphasis on borderline cases.

1.3.   The guidelines contained in this *Manual* set up a conceptual framework for the analytical presentation of monetary and financial data, which provides a critical input for monetary policy formulation and monitoring. The statistics covered in this *Manual* also supports the assessment of financial sector stability.

II. Historical Perspective

1.4.   In 2000, the International Monetary Fund (IMF, or the Fund) published the *Monetary and Financial Statistics Manual (MFMS)*, which was the first volume of its kind in the field of monetary and financial statistics. The *MFSM* was harmonized with the *System of National Accounts 1993* (*1993 SNA*) and other statistical manuals, such as the *Balance of Payments Manual*, 5th edition (*BPM5*). Consistency between statistical methodologies promotes comparability across macro statistic datasets within a country and across countries. Because of its focus on concepts, the *MFSM* was not intended as a compilation guide and did not deal with practical issues on sources or methods for compiling statistics.

1.5.   The publication in 2008 of the *MFS Compilation Guide* filled this void, providing direct assistance to monetary data compilers on the ways to implement the methodology and statistical framework contained in the *MFSM*. The *MFS Compilation Guide* focused on the cross-country harmonization of source data and methodology, with special attention to the accounting standards applicable to the source data for MFS.

1.6.   Between the publication of the *MFSM* and the *MFS Compilation Guide*, the IMF introduced in 2004 the standardized report forms (SRFs) for monetary data transmission from the countries to the IMF. The SRFs present the sectoral balance sheets of the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) in a

balance-sheet-like structure, according to the instrument, the currency of denomination, and the counterparty sector. Monetary data compiled using the SRFs were first published in *International Financial Statistics* (*IFS*) in September 2006. At end-2014, [140] jurisdictions were submitting their data to the IMF using the SRFs. Many of these countries are also using the SRFs as the platform to generate the monetary data disseminated through their national publications.

1.7.   Since these events took place, the methodological framework for national accounts was updated with the release in 2009 of the *System of National Accounts 2008* (*2008 SNA*). Almost simultaneously, the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) was published. Finally, the *Government Finance Statistics Manual 2001* (*GFSM 2001*) was revised, and a new *GFSM 2014* made available to the public in early 2014.

1.8.   In view of these major developments, a revision of the 2000 *MFSM* and the 2008 *MFS Compilation Guide* was required, in order to align the methodology of monetary and financial statistics to the new prevailing framework. The revision would also serve to address practical compilation issues based on the experience gained with the implementation of SRFs. Another factor that prompted this revision was the need to reflect recent developments in the financial sector and financial markets. The decision was taken to combine the manual and the compilation guide into one single volume, as a way to minimize duplications and to facilitate the work of compilers and users of monetary statistics.

III. MAIN CHANGES FROM THE *MFSM* AND THE *MFS COMPILATION GUIDE*

1.9.   The major methodological revisions contained in this *Manual*, compared to the 2000 *MFSM* and the 2008 *MFS Compilation Guide*, are summarized in the next paragraphs.

1.10.   There are changes in the **institutional sectors**, stemming from the new definitions of the *2008 SNA*. Most of these changes are related to the subsectoring of the financial corporations (FCs) sector, which now contains nine subsectors compared to five in the *1993 SNA*. There is a greater focus on the other FCs subsector (OFCs), with a split between insurance corporations and pension funds, the identification of money market funds (MMFs) and non-MMF investment funds, and the inclusion of a category for captive financial institutions and money lenders. As it will be seen in Chapter 3, the institutional units of the FCs sector are grouped for monetary statistics purposes, in particular the MMFs are grouped together with deposit taking corporations except the central bank in the other depository corporations (ODCs) subsector and all the other FCs are grouped in the OFCs subsector. The *Manual* also expands in the treatment of some special cases of institutional units of the OFCs subsector, such as special purpose entities (SPEs), sovereign wealth funds (SWFs), and central clearing counterparties (CCPs).

1.11.   Regarding **financial instruments**, the *Manual* adopts the revised terminology of the *2008 SNA*, although in most cases they do not connote a change in concepts. The new classification adds three sub-categories to financial instruments: (1) investment fund shares/units are added to equity; (2) pension entitlements and standardized guarantee schemes are added to the instrument name formerly called insurance technical reserves; and (3) employee stock options are added to derivatives. This *Manual* contains additional discussions on borderline cases in the classification of financial assets and liabilities.

1.12.   An important revision concerning financial instruments is the reclassification of the **special drawing rights (SDR) allocations** to the Fund's member countries, from equity to long-term foreign liability. The change was introduced in August 2009 in the monetary data compiled by countries, with historical data having been revised correspondingly. Previously, SDR allocations were recorded as a unilateral transfer from the IMF to its member countries, and in monetary statistics recorded as part of equity. The *2008 SNA* and the *BPM6* changed this treatment, considering the SDR allocations as long-term foreign liabilities of the countries receiving the allocation. In monetary statistics, SDR allocations are recorded now as a separate item in the central bank sectoral balance sheet (if the central bank has been designated as the fiscal agency for the country's financial relationship with the Fund).

1.13.   Another revision in this area refers to the classification of **financial instruments with principal and interest indexed to a foreign currency**. In the 2000 *MFSM* and the 2008 *MFS Guide*, the currency of settlement of the instrument was the key factor to determine whether a financial asset or liability was classified as denominated in national or in foreign currency. Therefore, instruments denominated in domestic currency but fully indexed to a foreign currency were classified as denominated in domestic currency. This was, for instance, the case for the *IMF Account N° 1*, *Account N° 2*, and *Securities Accounts*, which were classified as being in domestic currency, although principal and interest are indexed to the SDRs. However, the *BPM6* recommends treating financial instruments with principal and interest indexed to a foreign currency as if they were denominated in foreign currency. This *Manual* defers to this approach.

1.14.   This *Manual* offers a more elaborated discussion on **money aggregates**, focusing on the characteristics of the financial assets that should be included as part of broad money: liquidity and store of value. The 2000 *MFSM* and the 2008 *MFS Compilation Guide* did not contain prescriptions for national definitions of money, monetary base, credit, and debt— which were left to the discretion of national authorities. This *Manual* provides clear guidelines on the instruments that should be included in the calculation of these aggregates, taking into account the particular characteristics of each economy. For the definition of money aggregates, the *Manual* introduces the concepts of *money issuing*, *money holding*, and *money neutral* sectors. Furthermore, the *Manual* provides a more elaborated discussion on credit and liquidity aggregates.

1.15.   To implement these methodological changes in the practical process of monetary data compilation, the **sectoral balance sheets/SRFs were correspondingly revised**. The main changes relate to (1) the inclusion of a separate line for *SDR allocations* on the liability side of the central bank sectoral balance sheet; (2) the reclassification of the *IMF Account Nº 1*, *Account Nº 2*, and *Securities Account* from deposits denominated in domestic currency to deposits denominated in foreign currency; (3) the introduction of separate lines for MMFs shares/units on both sides of the sectoral balance sheet for ODCs with a breakdown by counterpart sector on the liability side; (4) the introduction of separate lines for non-MMF investment funds shares/units on both sides of the sectoral balance sheet for OFCs with a breakdown by counterpart sector on the liability side; (5) more detail in memorandum accounts that identify assets and liabilities with nonresident financial corporations, interbank positions with affiliated nonresident financial corporations, and debt securities and loans with a maturity of one year or less.

IV. Structure of the *Manual*

1.16.   This *Manual* consists of eight chapters, including annexes pertaining to specific chapters, and 2 appendices as follows.

1.17.   **Chapter 2** describes first the scope and uses of monetary and financial statistics. In discussing the monetary statistics, it provides a framework for the compilation of monetary statistics in a schematic presentation, integrating the different institutional units that constitute the financial corporations (FC) sector with the source data needed to compile their sectoral balance sheets, and then based on these the different sectoral surveys.

1.18.   The chapter then discusses the main principles and concepts, focusing on the links between the *2008 System of National Accounts* (*2008 SNA*) as an overarching framework for all macroeconomic statistical systems, including monetary and financial statistics; explaining the areas where the *Manual* differs from the *2008 SNA*.

1.19.   The remainder of the chapter explains the linkages between the accounting records of financial corporations, which are the source data for monetary statistics, and the methodological requirements of monetary and financial statistics. Accounting records are produced according to International Financial Reporting Standards (IFRSs) or national accepted principles, which focus on the financial position and performance of an entity as a way to provide information useful to a wide range of users in making economic decisions. Therefore, when compiling monetary and financial statistics, the information available from accounting records need to be expanded and tailored so as to conform to the sectoring of institutional units and the classification of financial assets recommended in this *Manual*.

1.20.   **Chapter 3** deals with institutional units and their grouping into sectors. When distinguishing between resident and nonresident units, and grouping resident institutional units into different sectors, the chapter follows the concepts and definitions of the *2008 SNA* and other major statistical manuals (the *BPM6* and the *GFSM 2014*). This chapter extends

the description of institutional units and provides examples of borderline cases that arise when classifying resident and nonresident institutional units.

1.21.   Because the focus of this *Manual* is on the relationship between the FCs sector *vis-à-vis* other resident units and the rest of the world, the different subsectors of the *2008 SNA* FCs sector are combined here into only the following three subsectors: (1) central bank; (2) ODCs, comprising deposit-taking corporations except the central bank and MMFs; and (3) OFCs, comprising all the remaining subsectors of the FCs sector. Furthermore, the resident nonfinancial corporations sector is split into only two subsectors—public nonfinancial corporations and other nonfinancial corporations—unlike the *2008 SNA*, where resident nonfinancial corporations are divided into separate subsectors based on the residency of the units that own and control them. In monetary and financial statistics, the subsectors state government and local government within general government are combined into one subsector, as are the sectors households and nonprofit institutions serving households (NPISHs).

1.22.   **Chapter 4** provides a detailed description of the characteristics of different categories of financial assets and liabilities. At its highest level, the classification of financial assets and liabilities in this *Manual* is fully consistent with that of the *2008 SNA*. The chapter provides guidance for the classification of: (1) monetary gold and special drawing rights (SDRs); (2) currency and deposits; (3) debt securities; (4) loans; (5) equity and investment fund shares; (6) insurance, pension, and standardized guarantee schemes; (7) financial derivatives and employee stock options; and (8) other accounts receivable/payable.

1.23.   At a secondary level of classification, monetary statistics disaggregate *currency and deposits* into separate subcategories for (1) currency, (2) transferable deposits, and (3) other deposits. Besides, deposits and debt securities on the liability side are divided into *included in broad money* and *excluded from broad money*. In monetary statistics, *insurance, pension, and standardized guarantee schemes* are disaggregated into (1) nonlife insurance technical reserves, (2) life insurance and annuity entitlements, (3) pension entitlements, (4) claims of pension funds on pension managers, (5) entitlements to non-pension benefits, and (6) provisions for calls under standardized guarantees. Finally, *other accounts receivable/payable* are disaggregated into (1) trade credit and advances, and (2) other accounts receivable/payable. Where relevant, financial assets and liabilities are split into denominated in domestic and in foreign currency.

1.24.   This chapter contains the following two annexes: (1) *Accounts with the IMF* and (2) *Islamic Financial Institutions and Instruments*.

1.25.   **Chapter 5** describes the compilation of stock and flow data for institutional units within the FCs sector. The first major section provides an overview of the stock-and-flow data framework in which double-entry accounting rules give rise to both vertical and horizontal adding-up requirements for the data. It then covers the compilation of flows by

asset classification, with recommendations on the recording of transactions, revaluations, and other changes in the volume of assets (OCVA) for each category or subcategory of financial assets and liabilities.

1.26.   The second major section covers the following accounting rules: (1) time of recording; (2) treatment of transaction costs and financial services fees; (3) valuations of financial assets and liabilities; (4) recording of debt reorganizations, and (5) aggregation, netting, and consolidation.

1.27.   This *Manual,* consistent with the *2008 SNA,* recommends recording transactions at the time economic value is created, transformed, exchanged, transferred or extinguished, i.e., using accrual accounting. Further, this *Manual* recommends that valuations of stock positions and flows should be based on market prices or market-price equivalents. It recognizes that market price quotations are not available for financial assets not traded or infrequently traded in secondary markets. It is, therefore, necessary to estimate market-equivalent values for such financial assets referred to as fair values.

1.28.   The underlying data for monetary and financial statistics should be reported on an aggregated basis, adding stock and flow data across all institutional units within a sector or subsector, or of all assets or liabilities within a particular instrument category. For analytical purposes, data should be presented on a consolidated basis, eliminating stock positions and flows that occur between institutional units that are grouped together and should be presented as if they constituted a single unit. It is the general principle in this *Manual*, and in the *2008 SNA,* that data should be recorded and compiled on a gross basis; although in some circumstances the presentation of data on a net basis may be appropriate, or needed due to the lack of availability of data on a gross basis.

1.29.   Four annexes are attached to this chapter elaborating on the estimation of transactions and valuation changes from exchange rate movements, valuation and recording of financial derivatives and specific types of securities with numerical examples, and settlement date and transaction date accounting.

1.30.   **Chapter 6** covers a variety of issues pertaining to the collection and reporting of data for compiling monetary base, broad money, and other money aggregates. Money plays an important role in an economy and is a key component of the transmission mechanism from monetary policy to economic activity and inflation. This *Manual* provides a definition of broad money. The definition is intended to help monetary statistics compilers determine the scope of broad money, taking into account the structure and other features of the financial system in their own economies and against the principles specified in this *Manual*.

1.31.   The aggregates of money, liquidity, credit, and debt have the following same underlying dimensions: (1) the financial instruments that are components of a particular aggregate; (2) the issuing sectors; and (3) the holding sectors. The distinction between money issuers, money holders, and money neutral sectors is introduced in this chapter.

Extending the discussion on money aggregates, this chapter presents the underlying framework for compiling liquidity aggregates with data on their counterpart sources, as well as measures of credit and debt.

1.32.   This chapter contains the following six annexes: (1) *Currency-Union Currency*; (2) *Dollarized Economies and Co-Circulation*; (3) *Reserve Requirements*; (4) *Seasonal Adjustment of Economic Time Series*; (5) *Debt Securities Issued by Economic Sector*; and (6) *Divisia Money*.

1.33.   **Chapter 7** discusses the framework and practical issues in the compilation and presentation of monetary statistics in accordance with the methodology of this *Manual*, and the necessary source data. The chapter describes first the sectoral balance sheets that provide a framework for the collection of monetary and then presents the main output of monetary statistics, namely the analytical surveys for the FCs sector and its subsectors, explaining the use of monetary surveys for monetary policy formulation. The depository corporations survey (DCS), for example, contains consolidated data for all DCs, presenting their claims on other sectors of the economy and on nonresidents, which constitute the counterpart sources of broad money. The financial corporations survey (FCS) contains consolidated data for all institutional units within the FC sector and provides the broadest coverage of domestic credit supplied by FCs.

1.34.   The source data for monetary statistics is discussed at the end of the chapter, including the systematic identification of data reporting requirements, data adjustments and estimations, and validation tests of the reported data. Finally, the chapter deals with the dissemination of monetary data, at the national level and for reporting to the IMF.

1.35.   Four annexes are attached to this chapter elaborating on the estimation of transactions and valuation changes from exchange rate movements, valuation and recording of financial derivatives and specific types of securities with numerical examples, and settlement date and transaction date accounting.

1.36.   The following five annexes, mostly in table forms, are attached to this chapter: (1) *Other Changes in the Volume of Assets*; (2) *Consolidation Adjustments*; (3) *Surveys of the Financial Corporations Sector*; (4) *Monetary Authorities Account*; and (5) *Supplementary Data: Guidance Notes*.

1.37.   **Chapter 8**, the last chapter, presents the framework, compilation and presentation, and source data for financial statistics. After providing definitions and scope for flow and stock accounts, more sophisticated frameworks are specified in terms of different levels of financial statistics: (1) two-dimensional financial statistics and (2) three-dimensional financial statistics on a from-whom-to-whom basis. The chapter touches also on the main source data for financial accounts and statistical discrepancies when two or more datasets provide different results for a particular data category. The only annex attached to this chapter provides an overview of the *2008 SNA*.

1.38.   In addition to annexes pertaining to specific chapters, the *Manual* contains two **appendices** presenting the relationship between monetary and financial statistics on one side, and government finance (GFS) and external sector statistics on the other (Appendix I); and illustrative sectoral balance sheets/SRFs (Appendix II).