

***BPM7* Annex 3. Regional Arrangements: Currency
Unions, Economic Unions, and Other Regional
Statements: Annotated Outline**

BPM7 Annex 3. Regional Arrangements: Currency Unions, Economic Unions, and Other Regional Statements: Annotated Outline¹

(Update to *BPM6* Appendix 3)

Changes from BPM6 highlighted yellow

As in Balance of Payments and International Investment Position Manual, sixth edition (BPM6) Appendix 3, this annex will cover the conceptual framework of regional arrangements (customs unions, economic unions, and monetary and currency unions) relevant for external sector statistics. The structure will be maintained from the BPM6 Appendix 3. The annex will have an introduction (Section I), followed by currency unions (Section II), economic unions (Section III), customs unions (Section IV), other regional statements (Section V), and a numerical example (Section VI). See the Schematic Overview for details.

In addition to the highlighted updates/additions below, further changes may be made to improve the consistency of the language with other macroeconomic statistics manuals (e.g., Government Finance Statistics Manual 2014 (GFSM 2014) and Monetary and Financial Statistics Manual and Compilation Guide 2016 (MFSMCG 2016)) as appropriate.

I. Introduction

- This section will be mostly maintained as in *BPM6* introducing the regional arrangements (customs unions, economic unions, and monetary and currency unions) and presenting the methodological issues associated with them from Table A3.1.

II. Currency Unions

- As in *BPM6*, this section will cover three statistical issues mentioned in A3.7 in separate sub-sections.
 - A. **Definitional Issues:** As in *BPM6*, this sub-section will cover the definition of currency union (CU), currency union central bank (CUCB), regional organizations, definition of a domestic currency in a CU, and the distinction between centralized and decentralized CU. **A table on main characteristics of different currency unions based on Annex I, GN B.3 will be added.**
 - B. **Application of Core Balance of Payments Concepts:** This sub-section including Box A3.1 will be mostly maintained as in *BPM6* with updated references of relevant *BPM7* chapters.
 - C. **Issues Related to the Operational Aspects of a Currency Union:** Discussion on the treatment of national agencies and reserve assets in a decentralized currency union, transactions and positions in banknotes, and other intra-currency union claims and liabilities will be mostly maintained as in *BPM6* with the following minor updates:
 - Initial Subscription of the CUCB's Capital (A3.44): **Following GN B.12 and consistent with Section V, Chapter 6, "other investment – other equity" will be renamed as "other investment – equity in international organizations and other equity".**

¹ Prepared by Venkat Josyula and Wilson Phiri (BPM editors) and cleared by Carlos Sánchez-Muñoz (BPM Project Manager).

- Allocation of Seigniorage (A3.47): Following the *MFSMCG 2016* (footnote 12 to paragraph 6.50), seigniorage will be defined as the net revenue equal to the difference between the nominal value of the currency and the cost of acquisition, distribution, and maintenance of the currency.
- Discussion on the treatment of national agencies of the currency union central bank (CUCB) in a centralized currency union will have the following updates/clarifications following GN B.3. Title of this item will be modified as “Treatment of national agencies of CUCBs and reserve assets in a centralized union”. As in the *BPM6*, national agencies (NAs) of CUCBs will be treated as institutional units separate from the headquarters of the CUCB. Further, transactions among resident units of the same member state settled through accounts at the CUCB are treated as domestic transactions.
 - It will be clarified that the NAs of CUCBs have close links with the member states and perform the functions of monetary authorities as in any other economy with an independent central bank. Further, complete set of accounts including the balance sheet are available for statistical purposes, as recommended in the macroeconomic statistics manuals. The nature of the transactions conducted by NAs of CUCBs is different from the usual transactions carried out by international organizations. Therefore, the above treatment permits an evenhanded treatment of member states of centralized CUs vis-à-vis economies with independent central banks (including in decentralized CUs), where transactions/positions of monetary authorities with resident units are always considered as domestic transactions.
 - In addition, since the (nonresident) CUCB carry out regular monetary authority transactions within each CU Member State, where no separate legal entity exists a resident notional unit—separate from the CUCB—shall be created in each Member State for statistical purposes. This unit is identified for statistical purposes because the operations have a strong connection to the location of operations in all ways other than incorporation. This principle is applicable to the residence attribution of transactions of NAs of the Banque Centrale des États de l’Afrique de l’Ouest (BCEAO), the Banque des États de l’Afrique Centrale (BEAC), and the Eastern Caribbean Central Bank (ECCB).
- In general, all regional organizations (including regional development banks such as the Development Bank of Central African States and the West African Development Bank) are treated as nonresident of their member states and transactions with member states are treated as external. *BPM6* discourages treating branches/offices of regional organizations as residents of their location without strong connection to the domestic economy (i.e., production on a significant scale that is based in the economy and a balance sheet that makes sense economically).
- The scope of CUCB transactions and positions on “own account” will be clarified. CUCB own account transactions are those that cannot be attributed to NAs of CUCBs. In simple terms, for the most part, the balance sheet of the CUCB could be seen as the sum of the balance sheets of the NAs of CUCB. This implies that every transaction conducted by the CUCB is recorded in the imputed balance sheet of the NAs of the CUCB (i.e., they are resident-resident transactions). Own account transactions are recommended to be limited to those beyond the regular operations of monetary authorities of an economy (i.e., those which cannot be attributed to NAs). For example, debt securities issued by the CUCB and subscribed by residents of an economy of CU are treated as own account transactions of the CUCB.

- Imputed reserve assets (RA) of member states and solidarity principle will be clarified. The RA of the member states of Central African Economic and Monetary Community (CEMAC), Eastern Caribbean Economic and Currency Union (ECCU), and West African Economic and Monetary Union (WAEMU) are pooled. In both the WAEMU and the CEMAC, member states pool their foreign assets in a common foreign exchange reserve fund and there is no national ownership of a share of the common pool. In the case of the ECCU, the member states own/hold a national share of the common pool of RA.
- The solidarity principle in WAEMU and CEMAC implies that each member of the CU has full access to the common pool of RA to meet their needs, irrespective of their contributions to the pool. In CEMAC, RA attributed to member states are calculated as the sum of the components of the foreign exchange reserves that are directly recorded in the accounts of each member state and items that are subject to a breakdown between the member states and the head office. Solidarity principle in this case does not prevent attributing the pool of RA to the member states. Further, having a negative position does not prevent an economy from accessing the regional reserve pool for valid balance of payments transactions. However, in the case of WAEMU, imputed RA are not compiled for members states due to strong adherence to the solidarity principle. A box will be added to distinguish between the cases of CEMAC, ECCU, and WAEMU.
- It will be clarified that the guidance on imputed RA following the principles outlined in *BPM6*, namely using net claims on the CUCB for deriving imputed RA will be maintained for cases where there are no direct information/accounting records to apportion reserves across member states (as is the case of ECCU at the time of writing the manual). For those CUs, where RA is recorded only in the balance sheet of the CUCB and imputed RA of Member States are not made available due to solidarity principle (as is the case of WAEMU at the time of writing the manual), deviation from the above recommendations should be explained in the meta data. As noted in Option 1.2 of GN B.3, net claims on the CUCB may be recorded as foreign assets in the balance sheet of NA of CUCB for Monetary and Financial Statistics purposes, and under other investment in the national balance of payments and IIP of member states.
- A new sub-section on the statistical treatment of special drawing rights (SDR) allocations for member states of a currency union will be added. It will be clarified that the treatment of SDR allocation/holdings in the balance of payments of a member of a decentralized (euro area) or centralized currency union (e.g., CEMAC, ECCU, WAEMU) is no different from that of any other country. SDR holdings and allocations are assets and liabilities of the country member that participates in the IMF's SDR Department. Therefore, in the case of centralized CUs, the SDR allocation/holdings should be attributed to the member state and recorded in the BOP/IIP of the member state of a currency union. It will be further noted that the above guidance on imputed reserves in the case of centralized CUs is specific to the foreign exchange reserves component of the official reserves. SDRs, the reserve position in the IMF, and monetary gold should be recorded in the BOP/IIP of individual member states.

III. Economic Unions

- This section will be mostly maintained as in *BPM6* with updates to relevant references. Consistency with the discussion in Appendix 5, *GFSM 2014* will be ensured.

IV. Customs Unions

- This section will be mostly maintained as in *BPM6* with updates to relevant references. Consistency with the discussion in Appendix 5, *GFSM 2014* will be ensured. Section title will be slightly changed from “Customs Arrangements” to “Customs Unions” to be consistent with the titles of other regional arrangements presented in this annex.

V. Other Regional Statements

- This section will be mostly maintained as in *BPM6* with no significant changes.

VI. Numerical Example: International Transactions and Positions in the National Data for a Member State of a Centralized Currency Union

- This section will be updated based on Annex III, GN B.3.

Schematic Overview

I	Introduction
II	<p>Currency Unions</p> <p>Table A3.1. Methodological Issues Relevant for Different Types of Regional Cooperation</p> <p>Definitional issues</p> <p>Table A3.2 Main characteristics of Currency Unions</p> <p>Application of core balance of payments concepts</p> <p>Box A3.1. Recording of Trade Transactions in Currency and Economic Unions</p> <p>Issues related to the operational aspects of a currency union</p> <p>(sub-section on centralized currency unions to be updated)</p> <p>Statistical treatment of SDR allocations</p>
III	<p>Economic Unions</p> <p>Definitional issues</p> <p>Recording issues</p>
IV	<p>Customs Unions</p> <p>A designated agency levies, collects, and distributes the proceeds from the duties</p> <p>A designated agency levies duties but member states collect duties</p> <p>Member states have collective rights to levy and collect the duties</p> <p>Member states have collective rights to levy the duty, but only one member collects the duties</p>
V	<p>Other Regional Statements</p> <p>Recording principles</p> <p>Specific recording issues</p>
VI	<p>Numerical Example: International Transactions and Positions in the National Data for a Member State of a Centralized Currency Union (to be updated)</p>

References

- GN B.3 and B.12. These guidance notes are posted at [Update of the sixth edition of the Balance of Payments and International Investment Position Manual \(BPM6\) \(imf.org\)](#)
- *Government Finance Statistics Manual 2014*
- *Monetary and Financial Statistics Manual and Compilation Guide 2016*
- [Guidance Note for Fund Staff on the Treatment and use of SDR Allocations](#)
- [How to Record the Allocations of Special Drawing Rights in Government Finance Statistics](#)
- [Statistical Treatment of SDR Allocation: Frequently Asked Questions](#)

Key Stakeholders Consulted

- System of National Account and Balance of Payments Manual editors
- IMF Statistics Department Financial Institutions Division and Government Finance Division