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# Treatment of Crypto Assets in Brazil's Balance of Payments

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# Introduction

# Structure of the Paper

The paper on which this presentation is based aims at presenting Banco Central do Brasil's (BCB) data collection and compilation framework of Bitcoin-like cryptocurrencies – *crypto asset without a corresponding liability designed to act as a general medium of exchange* (CAWLM) – and its treatment in the balance of payments. The paper:

- does not aim at addressing the treatment of other crypto assets in external sector statistics but does discuss source data that shed light on the trade of both CALM and stablecoins;
- focuses on the description of CAWLM source data and statistics in the balance of payments, but also addresses other statistics on crypto assets currently published in Brazil;
- discusses the main data shortcomings and the ongoing challenges for the compilation of CAWLM statistics in Brazil.

# **Taxonomy and Methodological Treatment**

# Methodological Guidance

Following **current guidance**, CAWLMs are classified in Brazil's balance of payments under exports or **imports** of goods, assuming that they are:

- **nonfinancial assets, because** they are assets that do not constitute liabilities of an issuing counterparty; and
- **produced assets**, because they are obtained by a productive process ("mining").

**Forthcoming guidance** will prescribe treating CAWLMs as:

- **nonproduced assets**, and therefore no longer classifying them under exports or imports of goods, but rather under **acquisition/disposal of nonproduced, nonfinancial assets**, a component of the capital account.

# Coverage

CAWLMs are not recorded in other external sector statistics (external debt or international investment position).

- Its quasi-money characteristics, nevertheless, have raised interest and elicited debate on the need for statistics on CAWLM position data.
- Separating CAWLM from other crypto assets is challenging due, among other issues, to the lack of clear and broadly disseminated taxonomy.

# **CAWLM in Brazil's Balance of Payments**

# Data Collection Framework

CAWLM transactions between residents and nonresidents are measured through foreign exchange (FX) settlements, which are the basis for the International Transactions Registration System (ITRS). The ITRS has specific codes for the settlement of crypto asset-related transactions.

The CAWLM market structure for Brazil comprises:

- the purchase of CAWLMS by large resident crypto asset exchanges from nonresidents, for distribution (sale) to resident clients, including individuals; and
- domestic trade, between resident exchanges or between these exchanges and their clients, including individuals.



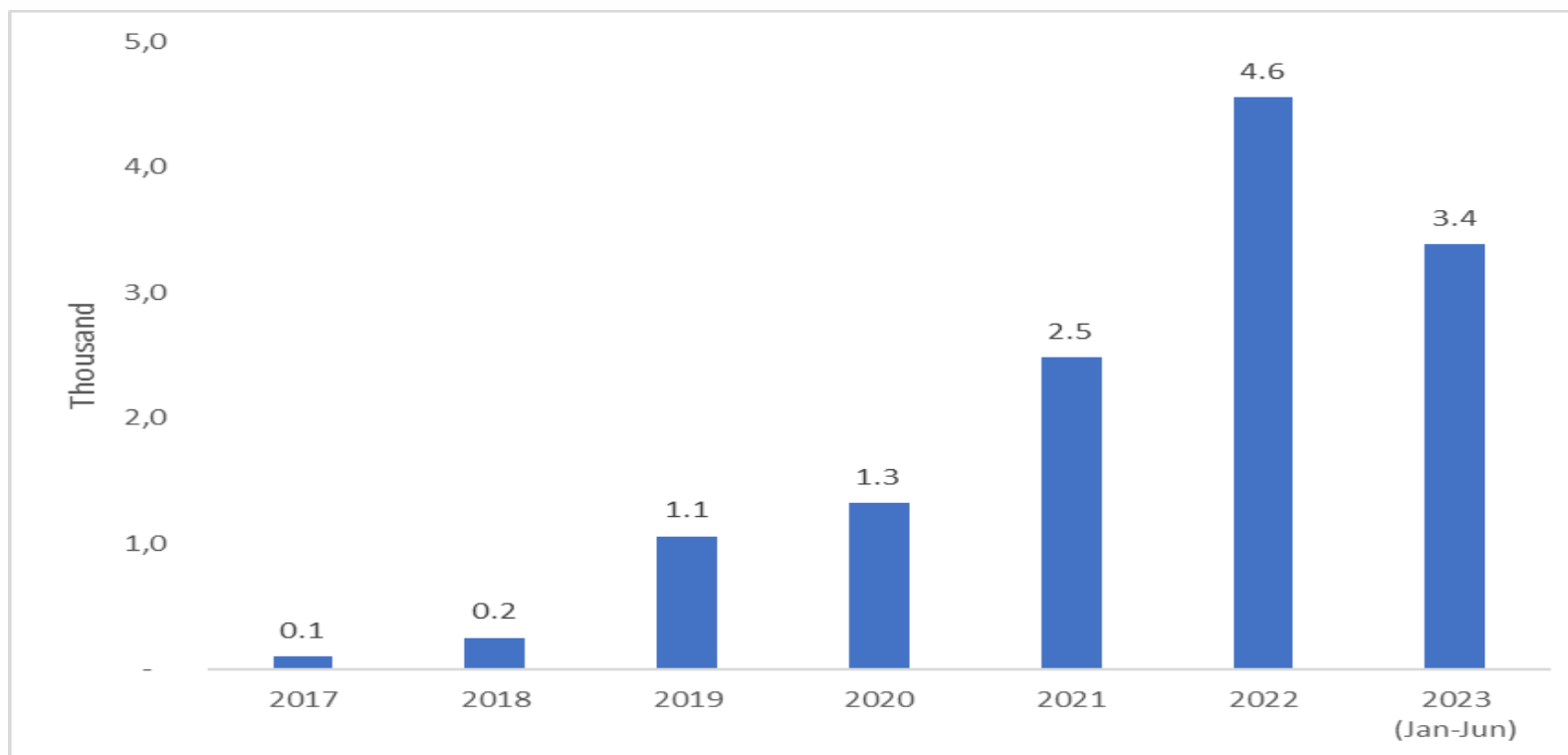
# CAWLM Flows

Brazil's balance of payments show high import values and low export values of CAWLM. In the 12-month period ending in June 2023:

- Imports :US\$9.2 billion;
- Exports: US\$220 million.
  - ▶ The relative absence of CAWLM exports is due, among other factors, to the high cost of electricity in Brazil, which inhibits cryptocurrency mining;
  - ▶ The increase in exports would be expected at some point.

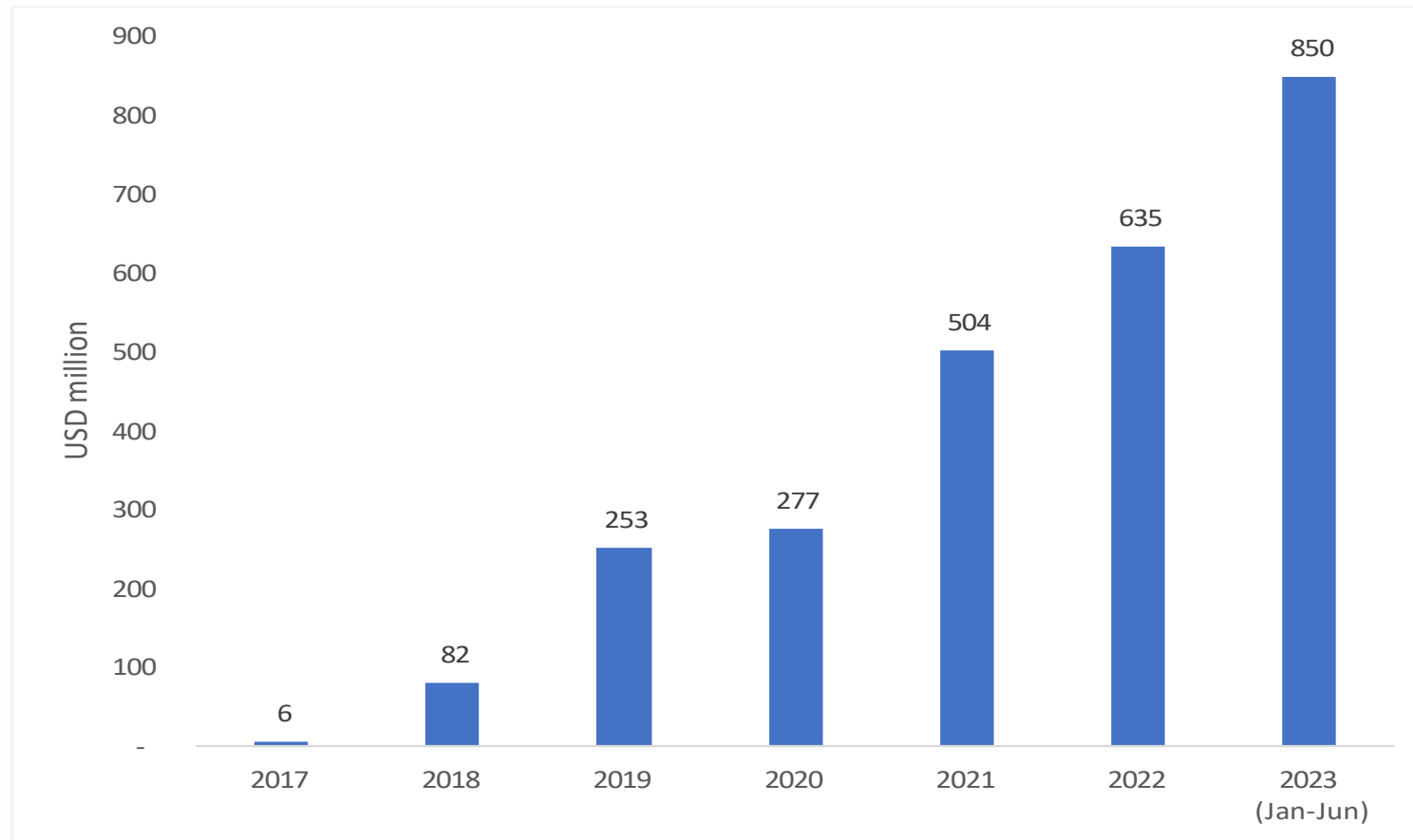
# Number of Transactions

CAWLM FX transactions have increased sharply and continuously from 2017 to 2022. Figure 1 of the paper shows **monthly average number of CAWLM-related FX transactions**.



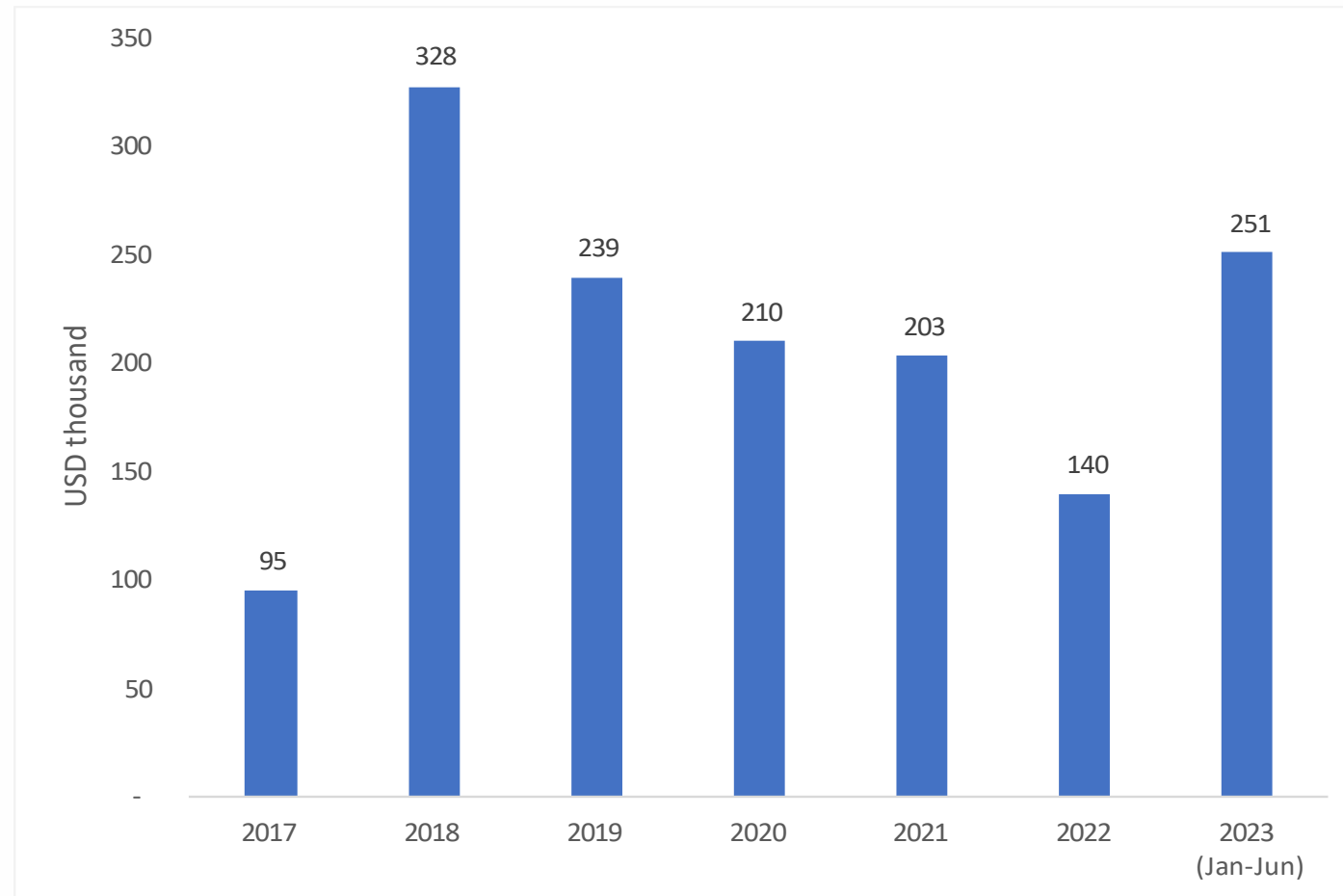
# Volume of Transactions

Figure two shows the continued increase of **monthly average volume transactions**.



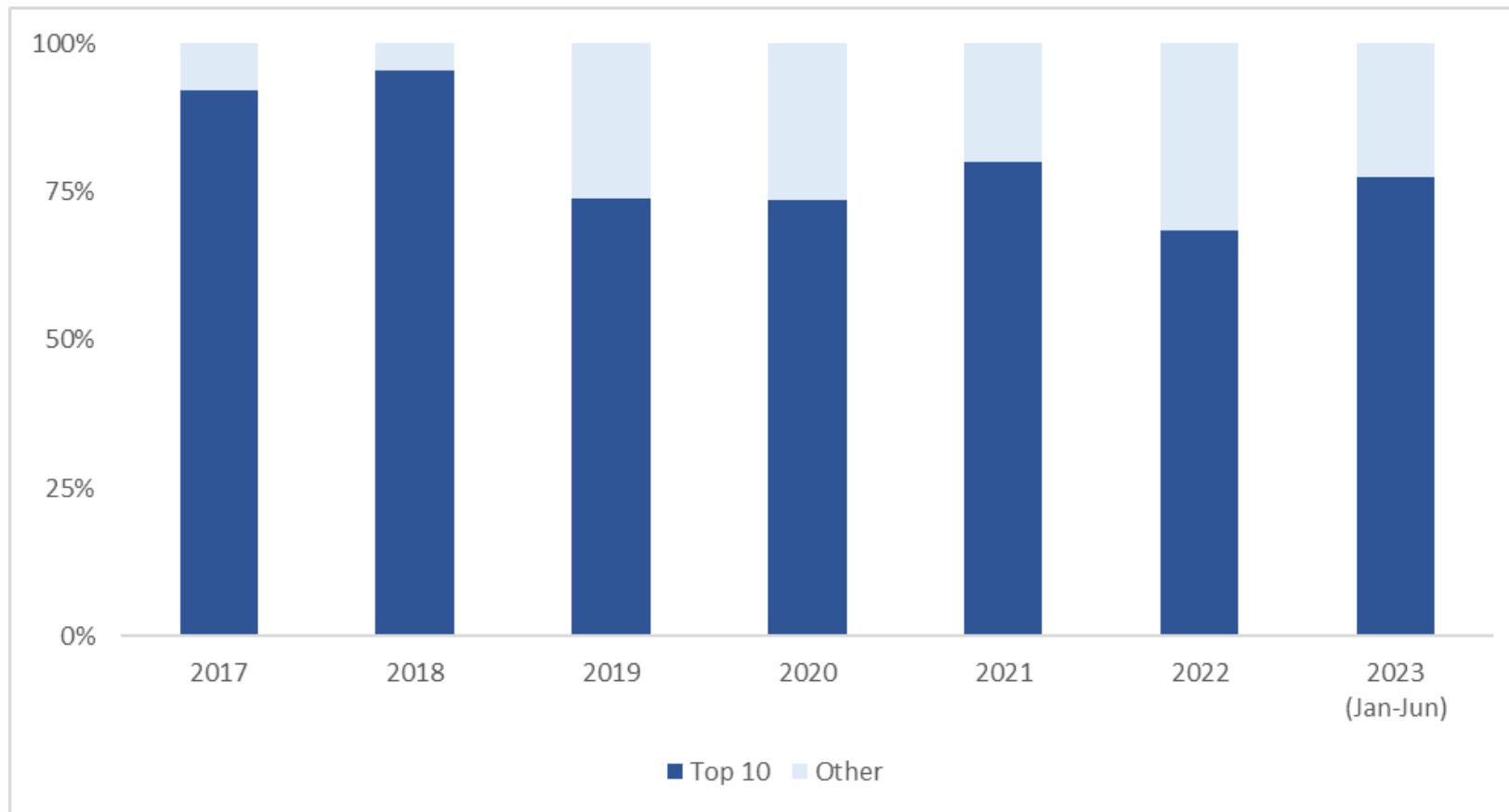
# Average Value of Transactions

The **average value of transactions** has remained above USD100 thousand since 2018



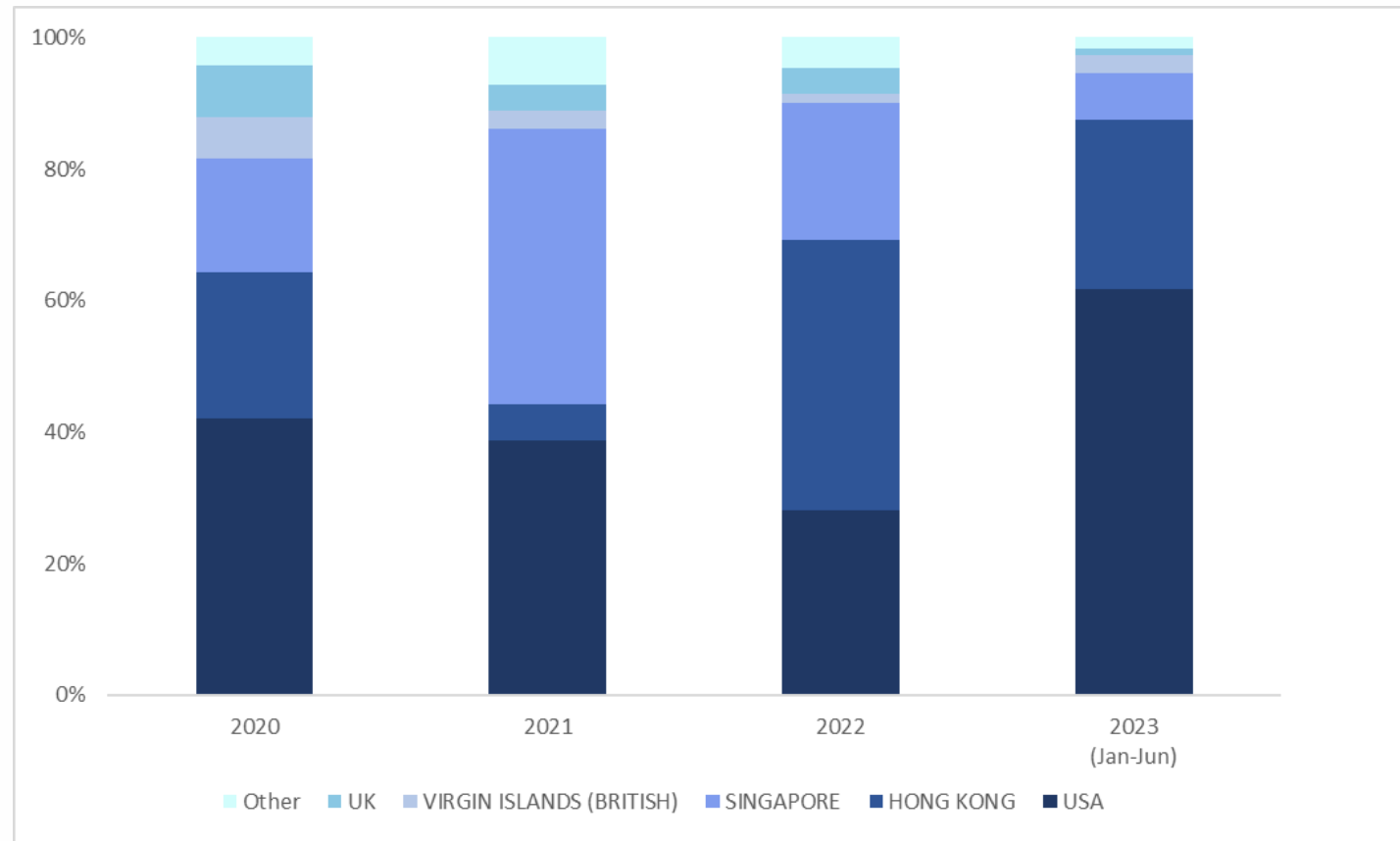
# Trade Concentration

The top 10 exchanges (out of roughly 80 in total) conducted roughly three quarters of all transactions in the last five years.



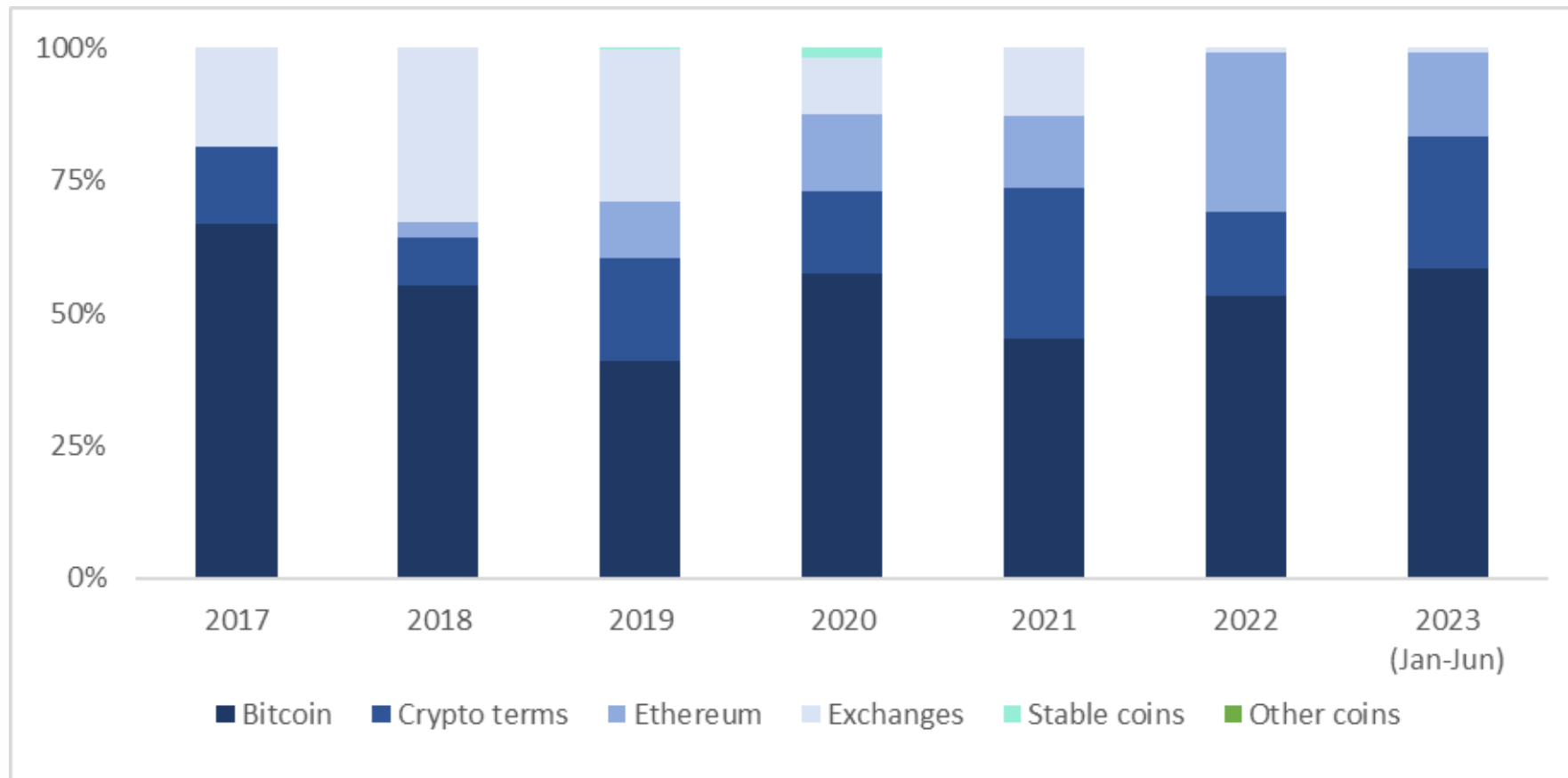
# CAWLM Purchases by Country of Counterpart

Most of the transactions (purchases) are with counterparts in the USA, Hong Kong, and Singapore.



# Crypto Asset Purchases by Type

The most commonly identified crypto asset in the FX transactions is Bitcoin. Stablecoins seldom appear.



# Other Official Data



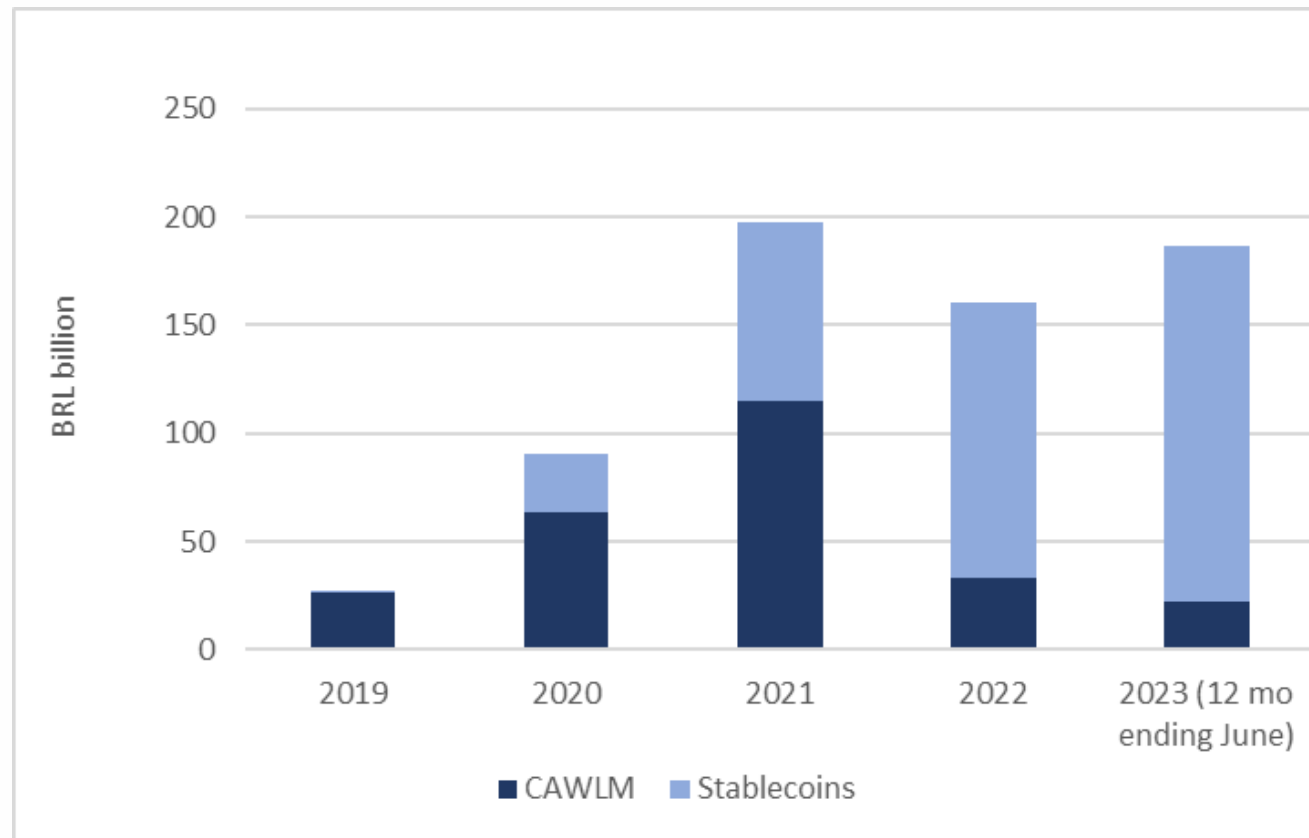
## RFB Data

Since 2019, resident crypto asset exchanges and individuals are required by law to report to Secretaria Especial da Receita Federal do Brasil (RFB), the Brazilian tax revenue authority, crypto asset trade transactions.

The requirements include acquisition and disposal of crypto assets, both CAWLM and non-CAWLM, between two resident (domestic market) counterparts and between residents and nonresidents (international market) counterparts. The RFB publishes the **sum of purchases and sales** of crypto assets traded both domestically and abroad.

# Crypto Asset Trade by Type – RFB Data

RFB data, like BCB data, show a continued increase in crypto asset trade. Unlike BCB data, though, they show Stablecoins as the main subject of trade in the last three years.



# Ongoing Challenges

# Coverage

The ITRS covers only FX settlements. Therefore, transactions settled directly through accounts abroad or by other means are currently not covered in the balance of payments.

RFB data could possibly be covering settlements abroad but:

- detailed metadata on the methodology of RFB are not yet available;
- the absence of stablecoins in BCB data and its prevalence in RFB data indicate that the datasets may present problems (unclear reporting guidelines may be unclear for data that are sourced for each of these datasets).

# Legal Framework and Data Collection

Data collection will depend largely on the scope of the crypto asset regulatory framework, especially the extent to which it will enable data collection for statistical purposes. In July 2023, BCB was designated to oversee and regulate services related to crypto assets in Brazil (Law 14.478 of December 2022 and Decree 11.563 of June 2023). Currently, the BCB is preparing public consultations, and, after that, it should publish the rules that will regulate the matter in Brazil.

# Methodology

Methodological guidelines are under development, but new issues may arise. It is yet to be clarified how the effects of purchases and sales (e.g., merchanting services, financial services, and capital gains) of crypto assets, depending on their classification as financial or nonfinancial assets, will be treated in the balance of payments.

There have been discussions recently on plans for the compilation of crypto asset positions data, which could include, in principle, both non-CAWLM (financial) and CAWLM. Collecting and compiling CAWLM position data may be challenging in terms of external sector statistics.

**Thank you for your attention.**