IMF Committee on Balance of Payments Statistics

Annual Report 1999

International Monetary Fund
Statistics Department

June 2000

June 2000

Production: IMF Graphics Section
Typesetting: Alicia Etchebarne-Bourdin

ISSN No. 1020-1637
ISBN No. 1-55775-943-X

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

recycled paper

Contents

List of Abbreviations

1993 SNA	*1993 System of National Accounts*
BIS	Bank for International Settlements
BOPSY	*Balance of Payments Statistics Yearbook*
BPM5	*Balance of Payments Manual*, 5th edition
CPIS	Coordinated Portfolio Investment Survey
CUSIP	Committee on Uniform Securities Identification Procedures
EMU	Economic and Monetary Union
ECB	European Central Bank
EU	European Union
FATS	Foreign Affiliates Trade in Services
GATS	General Agreement on Trade in Services
Godeaux Report	*Final Report of the Working Party on the Measurement of International Capital Flows*
G-10	Group of Ten (industrial countries)
G-22	Group of Twenty-Two Countries
IBS	International Banking Statistics
IIP	international investment position
ISIN	International Securities Identification Number
ISWGNA	Inter-Secretariat Working Group on National Accounts
ITRS	International Transactions Recording System
MPIs	macroprudential indicators
OECD	Organization for Economic Cooperation and Development
OFC	offshore financial center
SEFER	securities held as foreign exchange reserves
SDDS	Special Data Dissemination Standard (IMF)
SPEs	Special Purpose Enterprises
UNSC	United Nations Statistical Commission
WGFS	Working Group on Financial Statistics (OECD)
WTO	World Trade Organization

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 for the following purposes: to oversee the implementation of the recommendations contained in the reports of two IMF working parties that investigated the principal sources of discrepancy in global balance of payments statistics published by the IMF; advise the IMF 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, 1999 and its terms of reference are presented in Appendices 1 and 2, respectively. In 1999, the Committee held its twelfth meeting in October, in Santiago, Chile.

This 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 IMF's Statistics Department. Section IV discusses the Committee's work program during 1999, and Section V concludes with a discussion of the issues that the Committee plans to address in the coming year.

II. Executive Summary

The following summary discusses recent trends in global balance of payments statistics and the Committee's work program in 1999.

Recent Trends in Global Balance of Payments Statistics

Balance of payments statistics reported to the IMF's Statistics Department and published in the 1999 *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, different timing of cross-border transactions, and transactions that are missed altogether by one party or the other. In 1998, in the global current account statistics, the imbalance returned to a net debit after having shown an unusual net credit in 1997. The discrepancies in many of the component items remain high, with the data on investment income and goods transactions continuing to show the largest imbalances between recorded credits and debits. In financial account transactions, net inflows surpassed net outflows, in line with the trend since 1991. In 1998, the discrepancies in portfolio investment and other investment were very large but were, to a certain extent, offsetting: recorded transactions in portfolio investment assets exceeded those in portfolio investment liabilities by $119 billion (the first time that recorded transactions in assets have exceeded those in liabilities), while for other investment recorded liabilities exceeded recorded assets by a record $206 billion.

Committee Work Program

Events in international financial markets over the last few years have meant that there is a stronger appreciation by national authorities and international financial organizations of the need to improve the quality of economic and financial statistics. In that regard, the Committee at its October 1999 meeting discussed improvements to the reporting and measurement of external debt as well as guidelines to assist countries report data on their international reserves and foreign currency liquidity positions of the central authorities. However, while recognizing the importance of this information, the Committee expressed reservations about the impact additional data demands might have on the quality of data presently reported within the framework of *BPM5*. Increasing the frequency was considered to be especially problematic in compiling good quality stock data on external debt.

The Committee also reviewed the results of the first internationally coordinated survey of portfolio investment, undertaken under the auspices of the IMF, and examined the report of a task force set up to examine future options. In the view of the Committee, the 1997 survey was such a success that it adopted the task force's recommendation to conduct a repeat survey (at year-end 2001). The content of the next survey is to be extended to include countries' portfolio holdings of assets of short-term debt securities (in addition to long-term debt securities and equities included in the first survey) held as claims on nonresidents, and to extend participation to more countries and offshore centers. The survey was recommended by the *Godeaux Report* as a step toward addressing global asymmetries in portfolio investment. In the first survey, 29 countries participated, including most of the important investor countries, and an additional $750 billion in assets were identified. The results of the survey were published in January 2000.[1] As an asset survey, with information on the issues by counterpart countries, the CPIS can provide useful information for estimating countries' liabilities to nonresidents in these instruments. The potentially beneficial impact of this initiative on accurately recording the rapidly growing volume of cross-border activity in portfolio securities is underscored by the difficulties that many countries have encountered, as evidenced by the continuing large discrepancies in the global balance of payment statistics on portfolio investment financial flows and the related income flows.

Subject to the adoption of the rewrite of *1993 SNA* on financial derivatives by the UNSC by the end of February 2000, the Committee adopted the draft rewrite of *BPM5* that takes account of the changes in the statistical treatment of financial derivatives. As these proposed changes for *1993 SNA* and *BPM5* have been prepared in conjunction with each other, the conclusion of the process of approval for one is dependent on the approval of the other: the wording of the two documents is virtually identical in many instances. It was decided to distribute the document to the IMF's membership and to other interested parties and to place it on the Committee's website, noting that the proposals for the treatment of financial derivatives in direct investment and reserve assets are provisional and are to be reviewed in two years when countries have had more experience in measuring financial derivatives. The Committee was also provided with a report from the United Kingdom on the implications on balance of payments reporting of global booking of financial derivatives and an update of work at the BIS on international activity in financial derivatives.

As for other activities in 1999, the Committee supported the IMF proposals on clarifying the treatment of direct investment relationships involving banks, nonbank financial institutions, and SPEs; accepted in principle an IMF proposal clarifying the treatment of reverse transactions; continued to monitor the development of a manual on statistics of international trade in services; and reviewed a proposal that the treatment of accrued interest on debt securities be standardized across all macroeconomic statistics. The Committee was also apprised of progress that countries are making in reporting their balance of payments and international investment position data to the IMF on the basis of the classification system of *BPM5*. The Committee recommended that a task force be set up to examine the use of databases on individual securities for use in compiling portfolio investment statistics and other applications (such as for external debt data and the reserves data template). It was proposed that the task force comprise the BIS, the ECB, and the IMF, with possible individual country representation. Among the other subjects reviewed by the Committee were: a paper on improving measurement in transportation services in Chile; a paper from France on FATS; papers from Germany on the implications of the introduction of the euro on the German balance of payments and on the introduction of euro bank notes (in 2002) on the German travel account; a paper from the Bank of Russia on the Russian balance of payments in the latter half of the 1990s; a paper from the United Kingdom on smuggling; developments in balance of payments and international investment position statistics as a result of the creation of the European Economic and Monetary Union (EMU) and the introduction of the euro; and the implementation of the *BPM5* in Canada and Australia. The Committee was brought up to date on the work being undertaken on international banking statistics (at the BIS), and on progress toward the development of macroprudential indicators (at the IMF and elsewhere). The Committee was also advised about the technical assistance program conducted by the IMF.

III. Recent Trends in Global Balance of Payments Statistics

In principle, the combined surpluses and the combined deficits arising from the current account transactions of all countries (including international organizations) should offset each other, because one country's credits are the debits of another. The same principle applies in the recording of world capital and financial transactions. However, in practice, sizable statistical discrepancies are evident in the global balance of payments statistics, primarily reflecting incomplete coverage and inaccurate and inconsistent recording of cross-border transactions by countries. Each year, the IMF's Statistics Department publishes in *BOPSY* a summary statement of the global discrepancies in the main components of the balance of payments statistics. These data, which are presented in a slightly changed format in Tables 1 and 2, show considerable variability. It should be noted that many errors and

[1] *The Results of the 1997 Coordinated Portfolio Investment Survey* (Washington: IMF, January 2000).

omissions offset or cancel each other and therefore would not be reflected in the net balances shown in these tables. For example, a direct investment flow may be recorded as a portfolio transaction credit by one country and a direct investment flow debit by the other. This imbalance may be counterbalanced elsewhere by a loan debit being recorded as a portfolio debit. As a result, the two portfolio transactions being recorded will cancel out each other for one country while further countervailing errors may offset the different recording by the other countries. Discrepancies among the component items will partly reflect differences among countries in their classification of external transactions.

The global current account data for 1998 show the excess of recorded debits over credits rising to $37 billion, which is somewhat below the average imbalance for the last eight years. Large offsetting statistical discrepancies remain in the goods and in the income accounts. The global data on capital account imbalances, having improved markedly in 1996 and 1997, deteriorated sharply in 1998 to produce the worst outturn since 1995.

The imbalance on the financial account, although falling $34 billion, was still very large, at $110 billion, in 1998, with an excess of recorded inflows (liabilities to nonresidents) over outflows (assets of residents). The discrepancy in the financial account has averaged $121 billion a year over the 1991–98 period and ranges from $62 billion in 1994 to $154 billion in 1996. The discrepancy on transactions in “other investment” reached a record $206 billion in 1998, almost twice the imbalance in 1997, the previous worst imbalance, with sign reversed (recorded inflows exceeded recorded outflows) from the previous year. On the other hand, even though the imbalance in portfolio investment fell by more than half, to $119 billion—with recorded outflows exceeding inflows for the first time—the size of the imbalance and its volatility highlights the need for improved data for this series. (See *Coordinated Portfolio Investment Survey*.)

Global Current Account

The global current account data presented in Table 1 show an excess of recorded debits over credits of $37 billion in 1998, slightly larger than the level of the previous year and somewhat below the average imbalance of the years 1991–98.

Credits in the goods account exceeded debits by $80 billion; while this is the smallest imbalance since 1993, it is still a major discrepancy. Much of this imbalance is attributable to trade within the EU, whose Intrastat, a survey of businesses engaged in trade with other EU partner states, reported exports exceeding imports in 1998 by $62 billion. Moreover, as these import data are not adjusted for balance of payments requirements (i.e., they are recorded c.i.f., not f.o.b.), the imbalance is likely to be larger on a balance of payments basis.

Given that absolute levels can be somewhat misleading, an alternative way of assessing the significance of the discrepancies is to view the imbalances as a percentage of gross transactions. To that end, some ratios are shown as memorandum items in Table 1. From these it can be seen that the imbalance on current account as percent of total transactions in the current account was 0.2 percent, about the average of the previous four years, while, for gross merchandise trade transactions, the imbalance in 1998 (0.08 percent) was the lowest imbalance since 1992.

Among the standard components that make up the current account, the data on income transactions—compensation of employees and investment income—show an excess of recorded debits over credits of $109 billion in 1998, a deterioration of about 30 percent from the previous two years. As a percentage of total income flows, the imbalance was 4.2 percent in 1998, the worst ratio of the decade. This imbalance is more than accounted for by income on portfolio and other investment, which showed an excess of debits over credits of $135 billion in 1998, which, while similar to the imbalance in 1997, is about 15 percent higher than the average for the 1990s. The negative sign of the discrepancy in investment income is consistent with the sign of the discrepancy in the global financial account data, where recorded inflows are consistently higher than recorded outflows. This negative imbalance was offset to a certain extent by reinvested earnings on direct investment, which recorded an excess of credits over debits of $40 billion, which was, nonetheless, an improvement from the previous three years when the imbalance had averaged $60 billion.

The small overall discrepancy of $12 billion (credits exceeding debits) in international services transactions in 1998 also masks offsetting discrepancies in the underlying components. For example, with respect to the recording of transportation transactions, which showed the largest discrepancy, the global data show that recorded debits exceeded credits by $61 billion in 1998, along the lines of the imbalance of the three previous years. This imbalance was more than offset by the sum of the discrepancies for travel and other services, as credits exceeded debits by $40 billion for both, somewhat worse than the average for the decade. On the other hand, the excess of debits over credits of $6 billion for government services was the lowest for the decade. In its work program, the Committee is taking a close interest in the measurement and presentation of trade in services data.

Table 1. Global Balances on Current Account
(In billions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	Average Imbalance 1991–98
Current account balance	–102.0	–101.5	–62.1	–36.0	–34.3	–18.6	32.3	–36.8	–44.9
Trade balance	32.5	38.6	67.0	97.2	115.0	97.6	117.3	80.1	80.7
Credit	3,508.9	3,732.5	3,721.9	4,224.0	5,058.0	5,307.8	5,505.3	5,377.1	. . .
Debit	3,476.0	3,693.9	3,654.9	4,127.2	4,943.0	5,210.2	5,388.0	5,297.0	. . .
Services balance	–40.2	–28.1	–18.3	–4.0	–13.2	–1.3	16.6	12.0	–9.6
Credit	886.1	980.7	995.9	1,080.8	1,231.9	1,313.8	1,363.3	1,361.0	. . .
Debit	926.3	1,008.8	1,014.2	1,084.8	1,245.1	1,315.1	1,346.7	1,349.0	. . .
Transportation	–48.6	–53.0	–55.8	–55.7	–66.3	–63.6	–64.8	–60.9	–58.6
Travel	19.2	17.8	26.4	24.5	29.1	39.3	36.7	40.2	29.2
Government services	–26.7	–17.9	–9.3	–10.9	–13.8	–11.4	–10.3	–6.8	–13.4
Other services	16.0	25.0	20.4	38.1	37.9	34.4	55.2	39.4	33.3
Income balance	–64.9	–70.1	–66.8	–73.6	–87.9	–83.6	–82.5	–109.3	–79.8
Credit	902.5	920.1	919.8	923.2	1,104.8	1,171.3	1,222.4	1,251.5	. . .
Debit	967.4	990.2	986.6	996.8	1,192.7	1,254.9	1,304.9	1,360.8	. . .
Compensation of employees	–7.3	–9.7	–10.1	–8.7	–9.0	–9.6	–7.1	–8.4	–8.7
Reinvested earnings	48.6	38.1	45.8	41.1	57.8	67.5	56.8	40.7	49.5
Other direct investment income	3.8	6.0	–0.7	11.1	–17.9	–14.5	0.0	–6.3	–2.3
Portfolio and other investment income	–110.0	–104.6	–101.8	–117.1	–118.7	–127.0	–132.4	–135.3	–118.4
Current transfers balance	–29.4	–41.9	–44.0	–55.6	–48.2	–31.3	–19.1	–19.6	–36.1
Credit	328.2	310.1	293.8	295.8	326.0	367.5	360.7	370.6	. . .
Debit	357.6	352.0	337.8	351.4	374.2	398.8	379.8	390.2	. . .
Memorandum items									
Current account balance as percent of gross current account transactions	0.9	0.8	0.5	0.3	0.2	0.1	0.2	0.2	0.5
Trade balance as percent of gross goods transactions	0.5	0.5	0.9	1.2	1.1	0.9	1.1	0.8	1.0
Service balance as percent of gross service transactions	2.2	1.4	0.9	0.2	0.5	0.0	0.6	0.4	0.9
Income balance as percent of gross income transactions	3.5	3.7	3.5	3.8	3.8	3.4	3.3	4.2	3.7
Current transfers balance as percent of gross current transfer transactions	4.3	6.3	7.0	8.6	6.9	4.1	2.6	2.6	6.0

Source: IMF, *Balance of Payments Statistics Yearbook*, Volume 50, Part 2 (Washington, 1999).

The imbalance in the recording of current transfers in 1998 was $20 billion, debits exceeding credits—which continues the trend throughout the decade of a falling imbalance, which, as a percentage of gross transactions in current transfers, was 2.6 percent. The excess of debits over credits has characterized the imbalance for years and may in part be explained by a misclassification with capital transfers, which have consistently recorded an excess of credits over debits.

Global Capital and Financial Accounts

The overall imbalance in the capital account, comprising capital transfers and acquisitions and disposals of nonproduced, nonfinancial assets, amounted to $9 billion in 1998, about the average for the decade, but a substantial deterioration from the near balance recorded in 1996 and 1997. In relative terms, the size of the discrepancy, as a percentage of gross transactions, at

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

	1991	1992	1993	1994	1995	1996	1997	1998	Average Imbalance 1991–98
Capital account balance	9.8	19.6	19.3	22.5	17.6	1.1	–0.5	–8.8	10.1
Credit	23.5	28.8	31.5	44.3	39.0	55.2	45.6	45.7	. . .
Debit	13.7	9.2	12.2	21.8	21.4	54.1	46.1	54.5	. . .
Financial account balance	157.3	129.1	91.6	62.2	118.6	154.8	144.1	110.3	121.0
Direct investment	–42.3	–30.7	–7.8	–18.5	–8.0	2.1	17.3	26.3	–7.7
Abroad	–199.9	–201.2	–227.8	–262.5	–334.1	–365.6	–441.2	–611.9	. . .
In the reporting economy	157.6	170.5	220.0	244.0	326.1	367.7	458.5	638.2	. . .
Portfolio investment	75.0	104.7	156.2	66.8	187.8	175.9	280.0	–119.1	115.9
Assets	–341.9	–352.3	–542.3	–344.0	–365.0	–624.6	–717.3	–963.3	. . .
Liabilities	416.9	457.0	698.5	410.8	552.8	800.5	997.3	844.2	. . .
Other investment	145.1	85.2	15.2	55.5	–12.8	10.7	–109.0	206.0	49.5
Assets	22.9	–305.4	–433.5	–266.2	–685.6	–766.1	–1,316.8	–446.0	. . .
Liabilities	122.2	390.6	448.7	321.7	672.8	776.8	1,207.8	652.0	. . .
Reserves plus LCFAR [1]	–20.5	–30.2	–72.0	–41.6	–48.4	–34.0	–44.2	–2.9	–36.7
Reserves	–52.8	–69.9	–106.2	–112.2	–190.0	–190.3	–104.0	–32.3	. . .
LCFAR [1]	32.3	39.7	34.2	70.6	141.6	156.3	59.8	29.4	. . .
Net errors and omissions	–65.1	–47.2	–48.8	–48.7	–101.9	–137.3	–175.9	–64.7	–86.2

Source: IMF, *Balance of Payments Statistics Yearbook*, Volume 50, Part 2 (Washington, 1999)

Note: In the financial account, no sign in the balances indicates an excess of recorded inflows over outflows: a negative sign indicates an excess of recorded outflows.

[1]Liabilities constituting foreign authorities' reserves. The data on liabilities constituting foreign authorities' reserves were derived from information collected by the IMF from a sample of large reserve-holding countries. These data were used to adjust portfolio and other investment liabilities to better align the data with the corresponding asset series.

8.8 percent, is larger for capital transfers than for any other major component.

In the global financial account, recorded financial inflows persistently exceed recorded outflows; in 1998 the imbalance amounted to $110 billion, which was, nonetheless, an improvement over the discrepancies of $144 billion and $154 billion in 1997 and 1996, respectively. However, among the components of the financial account, the imbalances remain very volatile. The imbalance in *other investment* jumped to $206 billion in 1998, almost double the imbalance of 1997 and with a change in sign so that credits exceeded debits, representing a major change from the near-balance in 1996 and 1995. Much of the change is accounted for by a large imbalance in currency and deposits of $140 billion in 1998 (inflows exceeding outflows), three times the imbalance of the average of 1995–97. Similarly, loans registered an imbalance of $66 billion (inflows exceeding outflows), following a virtual balance in 1997. Many countries have difficulty separating loans from currency and deposits, in which case, the imbalance of the two series might produce a smaller imbalance. However, whereas this happens in some years, in 1998, the sum of the imbalances in currency and deposits and loans resulted in credits exceeding debits by $231 billion. Continuing work of the BIS in developing its international banking statistics may help to reduce these imbalances.

Portfolio investment transactions showed a discrepancy in 1998 of $119 billion, outflows exceeding inflows for the first time. This turnaround in the discrepancy reflects a measured increase in portfolio investment net outflows at the same time as recorded liability net flows decreased. (The latter decrease was consistent with the decreases in net flows reflected in both other investment assets and liabilities, which may be related to the international financial crises in 1997 and 1998.) Although the imbalance was lower in 1997, its continuing size and extra volatility reconfirms the Committee's decision to repeat the Coordinated Portfolio Investment Survey (see also the *Coordinated Portfolio Investment Survey*), which should not only improve the quality of the data on outstanding positions but also on transactions and the associated income flows. The imbalances were almost entirely the result of transactions in debt securities; equity transactions were virtually balanced. In addition, as countries implement the Committee's decision to create a separate functional category for financial derivatives, thereby removing them from portfolio investment, it is expected that the imbalances in portfolio investment and analytical usefulness of the data will improve.

By comparison, the aggregate global discrepancies in direct investment transactions are not large, continuing a trend of recent years—in 1998, they were $26 billion (inflows over outflows). There were, however, offsetting discrepancies between the components. As noted above, an excess of credits over debits for reinvested earnings of $40 billion was reported in the current account; consequently, as the current account entries are the equal and opposite of the financial account for this item, this means that outflows exceeded inflows in the financial account by the same amount. Other direct investment transactions—equity and intercompany debt—recorded more inflows than outflows of $14 billion.

In producing the global aggregates, the IMF adjusts data for portfolio investment and other investment liabilities to take account of those liabilities whose counterpart assets are classified as reserve assets. The information to make such adjustments is derived from a confidential survey of the instrument composition of reserve assets in the major reserve-holding countries. The data compiled are used only at the global level. The IMF instituted this survey in response to a recommendation of the *Godeaux Report*. Given that some significant reserve-holding countries do not report this information, the adjustments may be imprecise. Even so, 1998 saw the adjusted discrepancy virtually disappear for reserves assets and liabilities constituting foreign authorities' reserves.

IV. Work Program Undertaken by the Committee—1999

The work undertaken by the Committee in 1999 reflected the priorities established in the medium-term work program at the end of 1998. The work on the development of guidelines on the reporting of the authorities' international reserves and foreign currency liquidity positions, strengthening the SDDS in the area of external debt, together with the development of a new guide on the compilation and use of external debt statistics remained among the Committee's top priority items, together with the 1997 Coordinated Portfolio Investment Survey, and the clarification of the concepts and statistical reporting of repurchase agreements. High priority had also been given to methodological work on: statistics on trade in services; the extent to which countries report balance of payments data to the IMF on the basis of the classification system of *BPM5*; and a review of the appropriate method for the statistical measurement of accrual of interest on debt securities. Other work undertaken during the year included: the rewrite of *BPM5* to reflect the changed treatment of financial derivatives; and clarification of certain direct investment methodological issues. In addition, the Committee commented on a range of discussion papers and received a report on the implications of the introduction of the euro on the German balance of payments statistics and the introduction (in 2002) of euro notes to replace deutsche mark notes on the German travel account; reports from the Australia and Canada on their experiences in implementing *BPM5*; a paper on the development of FATS for France; the measurement of transportation services in Chile; a paper on the Russian balance of payments in the latter half of the 1990s; and a paper from the United Kingdom on smuggling. The Committee was also advised on progress toward the development of macroprudential indicators as well as receiving several papers from the ECB on developments on balance of payments statistics and the IIP in the euro area.

Reserve Assets and External Debt

The Committee considered the new operational guidelines that had been prepared by the IMF staff to assist countries in completing the SDDS data template on international reserves and foreign currency liquidity. The Committee was advised of the results of a questionnaire by the IMF designed to gauge the availability of external debt data of SDDS subscribers and to assist in the assessment of what would be involved in the transition to strengthen the SDDS in the area of external debt. It also reviewed the work of the Inter-Agency Task Force on Finance Statistics, including, in particular, the development of a new guide for the compilers and users of external debt statistics.

The data template had been jointly drawn up by the IMF and by a working group of the BIS Committee on Global Financial Systems (the latter representing the G-10 central banks), for use by countries in reporting detailed information on reserve asset holdings and other foreign currency assets and liabilities (both actual and contingent) of the monetary authorities and the central government. The IMF's Executive Board had adopted the template in March 1999, with a transition period for introducing its requirements to end in March 2000. The Board charged the IMF's Statistics Department with the responsibility for producing operational guidelines to clarify the reporting requirements. The guidelines are considered provisional because they will be reviewed at the end of 2000, to take account of countries' experiences in implementing the data template. The Committee confirmed the IMF's view, expressed in the provisional operational guidelines, that any differences between the data template and *BPM5* should be made explicit.

Regarding the data called for under the new prescription for external debt under the SDDS, Committee members expressed concern that the quality of the data be kept at the forefront and not be overwhelmed by demands for more data. They emphasized the importance of flexibility in applying the SDDS to different country situations and the importance of transparency in disseminating more information publicly.

With respect to the external debt data, most of the Committee members felt that the data should be compiled within the *BPM5* framework, although they supported the view that primacy should be given to the institutional sector, rather than functional category as in the IIP. New data demands, such as residual maturity of the debt, should be seen as supplementary to, rather than as a change to, that overall framework. For many countries, systems had been set up to provide information on original term to maturity, and it would be costly to change the systems to provide data on residual term to maturity. A transition period for reporting may need to extend to several years to take account of the increased demands for external debt generally as well as for additional information about maturity of debt. This would be needed, especially by creditor countries, many of which may not have seen the need to develop systems for the timely recording of external debt. The Committee felt that the SDDS prescription of quarterly data, with one quarter's lag, was likely to be onerous for many creditor countries to meet. To assist compilers in collecting the additional information, the Committee recommended that the IMF prepare a short statement, specifying the reasons for the data.

The Committee recognized that the new guide by the Inter-Agency Task Force on Finance Statistics on external debt represented an ambitious undertaking. The present guide was published in 1988; the new guide now needed to take account of changes in financial markets and instruments and new analytical demands identified in the assessment of the recent international financial crises. It is to be both conceptual and practical, and it is to build on, and be consistent with, *1993 SNA* and *BPM5*. The timetable for the new guide is for the first draft to be released in early 2000, and, following discussion with compilers during 2000, it is provisionally expected that the guide will be published by about mid-2001.

The core principles in the guide include the use of the residency concept and the primacy of the sector classification. Considerable interest in valuing debt at nominal, as well as at market, prices has also been expressed by potential users, with possible additional supplementary presentations for currency composition; ultimate risk; and residual versus original maturity. The guide should also assist in analysis of leverage and the associated use of financial derivatives and repurchase agreements.

The Committee noted that many of the user requests were outside the present requirements of the IIP and emphasized that the IIP remain the central statistical framework. It agreed that repurchase agreements should be classified as collateralized loans (see *Repurchase Agreements*) and that these transactions should be identified separately. It expressed general support for the use of security databases in the compilation of data, recognizing the wider application that such databases have for statistical purposes (see also the *Coordinated Portfolio Investment Survey*). However, it was pointed out that use of the concept of ultimate risk should be undertaken with some caution.

The Committee's views will be taken forward for further discussion within the IMF and the broader communities as work continues in the area of improving external debt data.

The 1997 Coordinated Portfolio Investment Survey

Under the auspices of the IMF, 29 countries conducted a coordinated portfolio investment survey (the Survey) of the stock of assets of long-term debt securities (bonds, notes debentures) and equities held as claims on nonresidents in reference to year-end 1997 (see Box 1). This Survey was recommended by the *Godeaux Report*. The potentially beneficial impact of this initiative is underscored by the continuation of the large discrepancies in the global balance of payments statistics on portfolio investment capital flows and the associated portfolio investment income flows (see Tables 1 and 2) and the difficulties that many countries have encountered in accurately recording the growing volume of cross-border activity in portfolio securities in the 1990s.

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

- 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
- exchange data among participating countries (respecting confidentiality constraints) to improve countries' estimates of their external portfolio investment liabilities, as well as associated financial flows and investment income data.

In addition to their holdings of nonresident-issued long-term debt securities and equities, reported by all participants, 15 countries reported their holdings of short-term debt instruments (i.e., those with an original term of less than one year) and of these, two countries provided data on financial derivatives. Eight countries provided estimates of their equity and long-term debt securities liabilities to nonresidents, six reported their short-term debt liabilities, and two their liabilities of financial derivatives.

The results of the Survey were published in January 2000. An additional $750 billion in assets were identified as a result of the survey. The Survey was supplemented by an IMF survey of the securities held as part of the reserve assets of major-investing countries (SEFER). Because, for many countries, the detail of the components of reserve assets is a sensitive issue, these data were reported to the IMF on a confidential basis; holdings were aggregated into a single vector so that no one country's holdings was identifiable. Similar information from some large international organizations was also included in the vector of data. Together, this additional information assisted in reconciling assets and liabilities. Taken all together, these reports constitute a very large proportion of the long-term debt securities and equities held on a cross-border basis, although gaps remain. Efforts will be made to address these gaps in the next survey.

Countries involved in the Survey have provided metadata on the approaches they have used, the methodology employed, the survey frame, the response rate, and related issues, as well as indicating their experiences in dealing with particular problems encountered. The information received has played an important role in the analysis of the results and in the exchange of information between and among the participating countries and will be valuable for future users and compilers. These metadata have been provided to the compilers of balance of payments statistics of all the IMF's membership.

In March 1999, the third meeting of national compilers was held to review and compare the results of the Survey. At that meeting, it was agreed that a task force should be set up to examine the results of the 1997 survey and to assess its effectiveness and whether a repeat survey should be recommended to the Committee. Mr. Gunnar Blomberg, of Sweden, was asked to chair the task force.

See Box 1 for the major recommendations made by the task force. Noting that the Survey had been a major success, the Committee adopted the recommendation that the Survey be repeated provided that coverage be extended, welcoming the announcement that Germany is planning to participate in the next CPIS. However, the Committee expressed reservations about collecting data on residual maturity and on liabilities, and it recognized that there may be legal and institutional difficulties in obtaining data on third party custodial holdings. It agreed that the task force should meet in 2000 to continue its work, including the updating of the *Survey Guide*. It was also noted that the Financial Stability Forum is exploring avenues for obtaining data from OFCs and that the CPIS could well complement these activities.

In its discussions on the task force report, the Committee noted the usefulness, for most countries, a global securities database would have in improving the quality of the data for the next CPIS. In addition, such a securities database could also be used to derive data on external debt and for use in reporting data according to the template for reserve assets and foreign currency liquidity. The Committee was advised that the ECB has decided to develop a securities database for all members of the euro area: this will help these countries in the compilation of their balance of payments, IIP, and money and banking statistics. The ECB saw the need for a standardized and harmonized approach for the whole of the euro area, while recognizing that the quality of the data was dependent on national compilers. A centralized securities database had strong support from the ECB, which saw it as a valuable support means to improve quality. The ECB's database has comprehensive coverage of euro issues (by both resident and nonresidents of the euro area) as well as domestic currency issues by residents of the euro area. The ECB is conducting a feasibility study to see how to carry the project forward. However, in view of the lack of a global database and the use of different databases in different countries (for example, the United States uses CUSIP, which is on a different basis from ISIN, the system used in Europe) it was agreed that a task force, comprising, at a minimum, the BIS, the ECB and the IMF, be established to explore what would be involved in the development of a global securities database, or at least, to create a key link between and among them.

Repurchase Agreements

The IMF provided a working paper to the Committee on the treatment of reverse transactions (commonly known as repurchase agreements, securities lending, gold swaps). These activities have expanded in volume and complexity in recent years and are either not covered in *BPM5* or are discussed incompletely. The appropriate statistical treatment of these transactions had been the subject of discussion at several meetings of the Committee in recent years; at its 1998 meeting, it was decided that the IMF undertake a thorough analysis of the economic meaning and a review of country practice and prepare a paper for consideration by the Committee at its meeting in 1999.

The Committee adopted, in principle, the paper's recommendations that reverse agreements involving the exchange of cash for securities be recorded as collateralized loans, provided that there is a fixed agreement to reverse

Box 1. The Coordinated Portfolio Investment Survey

Twenty-nine countries, almost two-thirds of which already compile an international investment position (IIP) on a regular basis, participated in the survey. All participating countries collected "mandatory" data on holdings of nonresident equity and long-term debt securities. Nonmandatory data on holdings of money market instruments were compiled by 15 countries and on liabilities by 8 countries. Full results from the survey were published in January 2000.

National compilers held their third meeting, in Washington in March 1999. At its meeting, the national compilers established a task force to examine the results of the 1997 survey and to assess its effectiveness and whether a repeat survey should be recommended to the Committee. The task force met in Washington in June 1999 and its chairman, Mr. Gunnar Blomberg, presented the report at the Committee's meeting in October 1999. Among the major recommendations were that:

- the survey had been a success and that it be repeated as at December 31, 2001;
- consideration should be given to conducting the survey on either an annual or a triennial basis (but a decision on that course of action need not be made immediately);
- failing the introduction of an annual survey, consideration be given to asking a "core" group of countries to produce estimates for the intervening years;
- instrument coverage be extended to include short-term debt as "mandatory" but that financial derivatives, other investment, and direct investment be excluded;
- consideration be given to ways in which third party custodial holdings be included in the survey;
- liabilities be included on a "voluntary" basis;
- participation be extended as far as possible to include all major investing countries and offshore banking centers; and
- residual, in addition to original, maturity be provided on an "encouraged" basis.

The Committee adopted most of these recommendations but expressed reservations about obtaining data on residual maturity and country counterpart information on liabilities. It also pointed out there may be legal and institutional difficulties in obtaining data on third party custodial holdings.

the transaction; and that the exchange of securities for securities under reverse agreements not be recorded as a transaction. This treatment is also consistent with the recommendation in the CPIS *Survey Guide* on the treatment of repurchase agreements and securities lending. However, it was also recognized that, for reasons of data sources or institutional arrangements, the recommendations may not be appropriate in some countries. In those cases, recording these transactions as transactions in the underlying asset was an acceptable alternative. In either case, the Committee considered that the importance of these transactions, particularly for purposes of analysis of leverage, was such that they should be separately identified (as memorandum items) in the financial account of the balance of payments and in the IIP. The choice of approach was seen to have significant impact on how a country's external exposure would be recorded, with particular impact on external debt. The Committee agreed that additional research was required for transactions involving gold.

It was agreed that the paper be prepared for publication and that it be brought back to the Committee for consideration at its meeting in 2000.

Trade in Services

The Committee was provided with an update on the work of the Inter-Agency Task Force on Statistics of International Trade in Services. This Task Force has focused on the statistical requirements of the WTO in the context of the GATS. It has been developing a *Manual on Statistics of International Trade in Services*. The *Manual* was released in draft form in early November 1999 for international discussion and comment. The Task Force is to meet in Washington in February 2000 to review the outcomes of worldwide discussions with a view to preparing a revised version for review by a UN expert group in the second quarter of 2000. The Task Force intends sending its completed *Manual* for approval to the UNSC in March 2001. It is expected that the *Manual* will be published in mid-2001. The Committee accepted the proposed timetable and agreed that the draft *Manual* should be placed on the Committee's website.

The *Manual* goes beyond *BPM5* in several respects: most notably by extending the list of cross-border services items to coincide with the Joint OECD-Eurostat Trade-in-Services Classification (apart from some limited extensions) and to measure foreign affiliates trade in services. In regard to FATS, the Committee was informed of the work being undertaken in France and the comparisons that had been made with similar data for the United States. There were some differences in the results between the two countries, which appear to reflect differences in coverage. The Committee was very interested in the results of the French study, which indicated the usefulness of FATS.

Fifth Edition of the Balance of Payments Manual

The Committee reviewed the progress countries were making in reporting balance of payments and international investment position (IIP) data to the IMF on the basis of the classification system of *BPM5* and their use of electronic reporting. For the 1999 *BOPSY*, 139 countries reported balance of payments data using the coding system of *BPM5* (an increase of 9 from 1998 and 37 from 1997). One hundred and three countries reported to the IMF in electronic form (up from 82 in 1998) of which 76 reported by electronic mail. While reporting IIP data on the basis of *BPM5* is not as advanced as the reporting of the balance of payments, there is a growing number of countries reporting: for the 1999 *BOPSY*, 47 countries reported such data, an increase of 11 from 1998.

Among countries represented on the Committee, most have converted their national balance of payments data in conformity with the concepts and principles of *BPM5*. The Committee received detailed reports on the recent work with respect to Australia and Canada. In both countries, conversion to *BPM5* had been done in conjunction with the adoption of *1993 SNA* so that there is consistency between the balance of payments and the IIP, on the one hand, and both flows and balances for the rest of the world in the national accounts, on the other.

Accrued Interest on Debt Securities

The Committee revisited the statistical treatment of the accrual of interest on debt securities that had been discussed at the last two meetings. The topic is of particular importance to the Committee because there are inconsistencies in the treatments recommended in international statistical guidelines, which are reflected in inconsistencies in practices between and across countries and institutions.

At the 1998 meeting, it had been decided that the IMF prepare a paper summarizing the alternative approaches and presenting the IMF's view on the appropriate treatment for all macroeconomic statistics, not just for the balance of payments. There are three possible ways of accruing interest: the debtor approach (which accrues at the rate of interest implicit at the time of issue of the security); the acquisition approach (which accrues interest at the rate implicit at the time the creditor purchases the security); and the creditor approach (which accrues at the rate of interest prevailing during the reference period). The *1993 SNA* indicates the use of the debtor approach; *BPM5* appears to support the use of the debtor approach in most instances but the acquisition approach for deep discounted and zero coupon instruments; the *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook* indicate the conceptual basis for the creditor approach but recognize that there may be practical difficulties in some instances in using it.

The Committee considered several papers on the issues. The paper prepared by the IMF's Statistics Department presented a summary of the views and a proposal that the debtor principle be adopted. It had been discussed, inter alia, during the year by ISWGNA, and at meetings of national accountants and financial statisticians at the OECD. The other papers had been prepared by Australia, the ECB, Eurostat, and Dr. Peter Hill (one of the primary authors of the *1993 SNA*). These papers presented differing positions.

As a result of these papers and meetings, it was decided that electronic discussion groups (one on the IMF's website, the other for discussion among members of the OECD's Working Group of Financial Statisticians) should be set up to encourage as large a participation in the debate as possible. A note in the May 1999 issue of *SNA Notes and News* drew readers' attention to the issue and sought feedback. The Committee agreed that the IMF should include a similar note in the December 1999 issue of the *Balance of Payments Newsletter*, and seek input from interested parties. It also asked the IMF, in conjunction with the Bank of England, to prepare a summary of the arguments and present a recommended treatment for consideration by the ISWGNA and the Committee in 2000.

Financial Derivatives

Almost since its inception, the Committee has discussed the conceptual framework for the measurement of financial derivatives, including the recommended international standards set out in the *1993 SNA* and *BPM5*. In 1997, the Committee adopted the recommendations of an IMF discussion paper, *The Statistical Treatment of Financial Derivatives*. This paper reflected the thinking of various experts including those in national accounts, balance of payments, and monetary and financial statistics and widespread consultation with statistical compilers. While not challenging the key recommendations contained in the international standards, the paper did make two significant proposals for change:

- First, a less restrictive view than in the *1993 SNA* should be taken about which financial derivative contracts fall within the existing *SNA* asset boundary, in effect allowing for the inclusion of more over-the-counter (or non-exchange traded) financial derivative contracts; and
- Second, related to this, interest rate swaps and forward rate agreements should be recognized as financial as-

sets, and net cash settlement payments in these contracts should be classified as financial transactions rather than as property income flows as recommended in *1993 SNA* (*1993 SNA*, paragraphs 11.37 and 11.43).

In addition, *The Statistical Treatment of Financial Derivatives* recommended the creation of a separate financial instrument within *1993 SNA*'s instrument classification and a separate functional category in *BPM5*.

The Committee and the ISWGNA charged the IMF with preparing draft revised texts of the *1993 SNA* and *BPM5* to take account of these changes. These were considered by the Committee at its 1998 meeting. It asked the IMF to proceed to publish the document, after having taken into account the views of the ECB and OECD on the appropriateness of including financial derivatives in direct investment and in reserve assets, and, if appropriate, whether they should be identified separately. During 1999, the *1993 SNA* rewrite went through a final process of review. As the *BPM5* rewrite had to be fully consistent with the *1993 SNA*, it was decided not to release the *BPM5* rewrite until the *SNA* process was complete. Indeed, during 1999, further minor changes were incorporated into the *1993 SNA* rewrite and these were reflected in the *BPM5* version. With the completion of the *1993 SNA* rewrite at the end of December 1999, the rewrite of *BPM5* will be published in early 2000.

In agreeing to the proposed text in 1998, the Committee asked that further consideration be given to whether there should be separate subcomponents for financial derivatives in direct investment and reserve assets. At the 1999 meeting, the Committee took the view that financial derivatives should be included in both direct investment and in reserve assets, and should be identified separately, although there was some concern expressed about the significance of financial derivatives in direct investment and the ability of countries to measure them in this category. This decision to include financial derivatives in direct investment and reserve assets is provisional and while it is consistent with their treatment in reserve assets as described in the provisional *Operational Guidelines* on *the Data Template for International Reserves and Foreign Currency Liquidity* (see *Reserve Assets and External Debt*) it is dependent on the review of those guidelines in late 2000/early 2001, and on country experience in implementing the recommendations in direct investment.

The Committee reconfirmed that recording financial derivatives transactions on a gross basis may be very difficult for many countries; in which case they should be recorded on a net basis (i.e., netting transactions in financial derivative liabilities from transactions in financial derivative assets). Recording the outstanding in the IIP on a gross basis was considered to be less difficult.

The Committee also received a paper from the United Kingdom on the implications of global booking of financial derivatives. The Committee was advised that there are essentially two ways in which financial derivative transactions and positions between related entities and their head offices can be recorded: there could be a series of offsetting trades or the branch/affiliate serves as a "post office." In the former, the local unit takes the transaction onto its books, and then records an equal and opposite transaction with the head office (located abroad). In the second instance, the transaction is not recorded on the books of the local unit: they are recorded directly with the nonresident head office. While double counting is not involved, the analytical interpretation would be different, depending on the method of reporting: in the former there would be two contracts, in the latter, only one, with possibly a different sector of counterparty.

Additionally, the Committee took notice of a report from the BIS on its most recent surveys of activity in financial derivatives markets. The third round of the regular semi-annual collection took place in mid-1999, for data as of the end of June 1999. (It is planned that eventually the survey will be quarterly.) The results provide data on nominal amounts and gross market values outstanding of foreign exchange, interest rate, equity and commodity based over-the-counter financial derivatives. The data are obtained from about 70 of the largest dealers in the G-10 countries, representing approximately 87 percent of market activity as at end-June 1998. The data are reported on a global consolidated basis, which means that they do not have direct application for balance of payments purposes. It is expected that, in future, these data will be released with a reduced lag as the dealers become more practiced in responding to the data request.

Direct Investment

Consistent with its concern about global discrepancies, the Committee has supported a joint IMF-OECD survey of IMF and OECD member countries to explore to what extent global imbalances in direct investment may be attributable to different country practices. The topic had been a major initiative of the Committee. The report of the 1997 survey had been published on the Committee's website and distributed by the OECD to its member countries, providing summary details of the OECD/IMF database on country practice. The report and the database had proved very useful in several international meetings of direct investment compilers and in work to reconcile direct investment data. The results of the survey are stored in an Internet metadatabase that provides standardized information on data sources, collection methods, and dissemination practices (e.g., availability, periodicity, timeliness, revision policy, and breakdowns) for each member country that completed the survey form. The metadatabase indicates the extent to which national compilers have implemented the international standards and facilitates the exchange of bilateral information on compilation practices. It is presently available on request to officials of IMF and OECD member countries and international organizations.

The final version of the IMF's report will be distributed early in 2000 to all IMF member countries. At the same time, the IMF will request countries to update their previous survey responses in order that the database can be made current.

The Committee considered an IMF paper that raised some practical issues regarding banks, special purpose enterprises (SPEs) and nonbank financial institutions affiliated to financial institutions and with SPEs "operating solely in an intermediary capacity" (as defined in *BPM5*).

The Committee also discussed the issue of "bonus payments" by mining operations, which are made immediately prior to the establishment of a direct investment enterprise; it was considered that this was a particular problem for some developing countries. It was felt that a reasonable working basis to determine whether it represented direct investment was whether the drilling operation had been put out for contract or not: if it had, then it could be considered to be direct investment. The Committee considered that the proposed clarifications should be further reviewed by experts at the ECB and the OECD before making a decision.

It was also felt that the related issue of rent needed exploration in the balance of payments. At present, there is nowhere for rent payments by nonresidents to residents to be included in the present framework of either *BPM5* or *1993 SNA*. Some Committee members noted that the treatment of rent in direct investment should be approached with caution, especially as it would have differing effects depending on whether the payment was treated as income or direct investment. See *Future Work Program*.

International Banking Statistics

The Committee was informed of the work at the BIS. It was noted that the joint BIS-IMF-OECD-World Bank statistics on external debt, of which the BIS' "locational" international banking statistics is the most important component, is working well. However, obtaining a maturity breakdown of the locational data is still a distant prospect: at present, only the consolidated data have the residual data. Seventeen new reporters have been invited to join the IBS collection, with the first group of countries joining soon. The Committee was advised that the creditor counterpart information from the IBS has proved to be very useful to many users. The BIS is also looking at bilateral problems (such as separate reporting by the Channel Islands, which are no longer included in the data for the United Kingdom) to minimize discrepancies.

Introduction of the Euro

The Committee received reports from Germany on the impact of the introduction of the euro on the German balance of payments statistics and the introduction of euro bank notes (and the disappearance of Deutsche bank notes) in 2002 on the German travel account.

The introduction of the euro has meant that additional currency information has to be requested from respondents. Dealing with the additional demands was compounded by the Y2K problem and the impact on computer resources. Given the problems in early 1999, there are still questions of the reliability of data for those early months of the new currency area. However, *BPM5* had now been fully implemented, including the 10 percent threshold for determining a direct investment relationship. Also, for direct investment, the directional principle had been implemented. Securities lending is now recorded as collateralized loans, in the same manner as repurchase agreements. The Committee was advised that, with the creation of EMU, national reserve assets for Germany (and other EMU member states) are no longer meaningful: the EMU's total holdings (the ECB's plus national central banks' holdings) should be regarded as the relevant total.

The Committee was also advised of the work that was being done in Germany about the introduction of euro notes (and the disappearance of DM and other EMU currencies banknotes) in 2002 and the impact that this would have on the German travel account—the second largest item, after goods, in Germany's current account. Despite the increasing use of credit cards and package tours, major parts of the travel account are still collected via the exchange of banknotes, meaning that additional sources of information will be needed in the future. A border survey was not considered viable as Germany has borders with nine countries and because there is ready movement across the borders. A household expenditure survey is very costly and would provide information on the debit side only. It was suggested that partner country data may be a possibility for credit data. It was also suggested that the maintainable parts of the present system should be retained and estimates be used for others parts (e.g., a considerable amount of credits relate to business travel and they are not volatile and are quite small in comparison to debits in personal travel). Work is continuing and a decision will be made in early 2000; it is not yet clear whether a new system will be in place by 2001 for comparison with the present system. The Committee recognized the importance of the issue and the difficulties involved where there is free movement across borders and innumerable methods of payments. In view of the importance of this topic, and the links that it has for tourism, the Committee sought an IMF report on the developments toward a common conceptual framework for a tourism satellite account by the OECD and the World Tourism Organization.

Current Account Issues

The Committee was provided with a paper on how the Chilean balance of payments compilers had decided to use non-traditional methods of collecting data (through bills of lading) in order to derive estimates of transactions in transportation services because the traditional methods of collecting the data were deficient. One of the principal advantages of the approach adopted was that coverage improved considerably. Due both to the characteristics of legislation and to traditional practices in the statistical systems, the collection of data through surveys is largely on a voluntary basis in Chile. As a result, response is low. To overcome this problem, the Chilean authorities chose to use this alternative source of information (bills of lading) to develop much more comprehensive information on transportation services. The coverage, frequency and timeliness of the data are much greater and the Chilean balance of payments compilers have access to each transaction from the Customs data. The new data source had brought very useful results.

A paper that traced the link between the Russian balance of payments and ruble levels from 1994 to 1998 was presented to the Committee. It was noted that balance of payments compilers should take a more active role in interpreting the data as the data are so difficult to understand, especially for economies in transition. It was suggested that, with a better understanding of what the data mean, it is probable that the compilers will produce better quality data. To that end, it was suggested that training for compilers in transition economies be developed by Russia and the IMF on how to interpret balance of payments data.

Macroprudential Indicators

Macroprudential indicators (MPIs) were discussed by the Committee. Internationally, there has recently been considerable interest and discussion on this topic. Two kinds of data are proposed for inclusion: aggregated statistics from individual financial institutions, and macroeconomic variables, including data on balance of payments, economic growth, rates of inflation, interest and exchange rates, reserve assets, terms of trade, maturity spectra, and composition of capital flows, all of which have an impact on financial stability. Together with the World Bank, the G-7, and others, the IMF is interested in the development of MPIs. A background paper, prepared by the IMF's Statistics and Monetary and Exchange Affairs Departments, was presented to a consultative conference, hosted by the IMF, in September 1999. Representatives came from international organizations, central banks, governments, and the private sector. The main conclusions of the meeting were: there was still a considerable amount of work to be done to identify a set of MPIs, as typically what may be the right set in one situation was not the right set for another; the creation of a composite index was rejected as it was considered to be too simplistic; there was a need to start with basics (e.g., with generally accepted accounting principles); and the required information was best developed from banks but that nonbank financial institutions would soon also need to be involved, followed by nonfinancial corporations. Generally, it felt that it was too soon to include MPIs in the SDDS. It was felt that the IMF should undertake a survey of country practices and data availability. The Committee was advised that a major effort is required to develop reliable, generally agreed indicators.

Developments at the Regional Level

The Committee was advised about developments at the ECB with respect to changes that have resulted from the introduction of the euro. These changes have had an impact on, inter alia, reserve assets and the balance of payments, as well as the development of an IIP and a securities database for the euro area.

With the creation of EMU and the birth of the euro on January 1, 1999, any reserve assets by one EMU member state on another member state had to be consolidated out of the holdings of member states and the ECB (which together constitute the Eurosystem's reserve assets) while any holdings in euros were not to be considered to be reserve assets as they were not a foreign currency claim. Foreign currency claims (i.e., claims in other than the euro or the currencies of the member countries) by one member state on another are to be shown as memorandum items to the reserve assets. (This approach is consistent with the Reserves Template; See *Reserve Assets and External Debt*).

The initial estimates for the IIP for the euro area will be based on *BPM5* concepts and will be consistent with the breakdown in the financial account of the balance of payments. The data will be compiled annually. However, initially, the IIP will be compiled on a net basis, relying on aggregated national data, meaning that external assets and liabilities for the euro area will not be available. The data are to be made available within nine months of the end of the reference period. A comprehensive IIP for the euro area — showing external assets and liabilities separately — requires a consolidation of euro area members' data and the ECB considers developing such information a major priority in its work plan.

Future Work Program

Appendix III sets out in detail the medium-term work program agreed by the Committee in 1999. 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 and resources available for research and investigation.

The top priority for the Committee is the continuing refinement of the work on external debt and the IIP. In particular, the continuation of the IMF's involvement in the work by the Inter-Agency Task Force on Finance Statistics to produce a new guide on external debt will be of considerable value to the IMF's ongoing work to improve data availability, quality, and transparency and assist in the IMF's surveillance work. Related to this is the continuing work by the BIS on the production of international banking statistics, which is an important input to both the joint BIS-IMF-OECD-World Bank debt statistics, and to bilateral reconciliations and improvements of data for national sources. At the same time, given the Committee's decision to repeat the Coordinated Portfolio Investment Survey as at December 31, 2001, the work of the task force in preparing for the survey and of the IMF to expand coverage are top priorities. In conjunction with this work is the need to explore the development of a global securities database, or, at a very minimum, to establish links between existing databases.

High-priority subjects include an IMF progress report on the implementation of the data template on international reserves and foreign currency liquidity by SDDS subscribers and the feedback from compilers on their experiences in implementing the operational guidelines for completing the data template. During 2000, the manual on statistics on international trade in services will be reviewed following the release of the draft document in November 1999 for international review and the IMF will report to the Committee on progress in finalizing the document. In addition, the IMF will conclude its work on producing, for publication, a definitive document on the statistical treatment of repurchase agreements, securities lending, gold loans, gold swaps, and similar transactions. The IMF will provide an update on its monitoring of the implementation of, and country experience on, *BPM5*. A joint IMF/Bank of England paper will be presented to the Committee, summarizing the discussion on the appropriate macroeconomic statistical treatment of accrual of interest on debt securities. The IMF will produce a paper on issues that need to be considered in moving towards the preparation of the next edition of the *Balance of Payments Manual*.

Medium-term priority has been given to updating the survey of national methodological practices of the measurement of direct investment as well as to report on the clarification of several practical measurement issues at meetings at the ECB and the OECD; and to preparing an IMF paper on global imbalances in the balance of payments statistics. Also, the IMF will release the *BPM5* rewrite on financial derivatives and report on the development of a training course for balance of payments compilers on the uses of balance of payments data. Papers will be provided by Germany, Chile, and Eurostat on developments in measurement for their travel accounts, and the IMF will report on the work by the OECD and the World Tourism Organization on the development of a common conceptual framework for a tourism satellite account. In addition, there will be papers from Germany and the United Kingdom on the advantages and disadvantages of producing monthly balance of payments statistics, a paper from Russia on the statistical measurement of drug smuggling, and an IMF paper on rent in the balance of payments (and the external sector of the national accounts).

If time permits, conceptual issues will be explored related to the treatment of nonproduced, nonfinancial assets in the balance of payments and the IIP. Work in this area would be conducted jointly by the IMF and Canada. The IMF will report on developments toward the creation of macroprudential indicators.

Appendix 1
IMF Committee on Balance of Payments Statistics
Composition as of December 31, 1999

Chairwoman

Carol S. Carson
IMF, Statistics Department

Members

Abdulrahman Al-Hamidy[1]
Saudi Arabian Monetary Agency
Christopher Bach[2]
U.S. Department of Commerce
Antonello Biagioli
Ufficio Italiano dei Cambi
Jean-Baptiste Bourguignon
Banque de France
Stuart Brown
Office for National Statistics, United Kingdom
Teresa Cornejo
Banco Central de Chile
Masahiro Hoka[3]
Bank of Japan
Ivan King
Australian Bureau of Statistics
Pim Kramer
De Nederlandsche Bank N.V.
Christina Kruse
Deutsche Bundesbank
Lucie Laliberté
Statistics Canada
Neil Patterson
IMF, Statistics Department
Isabelle Rabaud[4]
Ministry of Finance, France
Yoshiaki Terai[5]
Ministry of Finance, Japan
Sergei Shcherbakov
Central Bank of Russia
Soon Teck Wong
Department of Statistics, Singapore

Representatives of International Organizations

Rainer Widera[6]
Bank for International Settlements
Peter Bull[7]
European Central Bank
Peter Richardson
Organization for Economic Cooperation and Development
Jean-Claude Roman
Statistical Office of the European Communities

Secretariat

Marco Committeri
IMF, Statistics Department
John Joisce
IMF, Statistics Department

[1]Dr. Al-Hamidy was accompanied by Mr. Jamal al Khamees at the 1999 Committee meeting.
[2]Mr. Bach has replaced Mr. Gerald Pollack.
[3]Mr. Hoka has replaced Mr. Masashi Nakajima. Mr. Masami Hamaoka represented Mr. Hoka at the 1999 Committee meeting.
[4]Ms. Rabaud has replaced Mr. Dominque Nivat.
[5]Mr. Terai has replaced Mr. Masashi Nagano.
[6]Mr. Karsten von Kleist represented Mr. Widera at the 1999 Committee meeting.
[7]Mr. Echeverría represented Mr. Peter Bull at the 1999 Committee meeting.

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 IMF 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 IMF 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 IMF 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 IMF's Statistics Department, the Committee will determine its work program and will meet under IMF auspices at least once a year.

6. The Committee will prepare an annual report for presentation to the Managing Director of the IMF.

Appendix 3
Medium-term Work Program of the IMF Committee on Balance of Payments Statistics: End-December 1999

Subject	Issue	Action
Top Priority		
External debt and IIP	Improve reporting of external debt data within international investment position framework.	IMF paper on developments at Inter-Agency Task Force on Finance Statistics.
		IMF report on development of users and compilers guide to external debt statistics.
		IMF paper outlining reasons for data (including residual maturity).
International Banking Statistics	Use and improvement of international banking statistics.	Progress report from BIS.
Coordinated Portfolio Investment Survey	Preparation for conducting year-end 2001 survey.	Task Force report on methodological and operational changes to Survey Guide.
		IMF report on approaches to expand coverage of survey.
Securities Database	Development of database.	IMF report on results of inter-agency task force (of BIS, ECB and IMF).
High Priority		
Reserves data	Improve dissemination of information on reserves and foreign currency liquidity.	Progress report by IMF on implementation of SDDS data template.
		IMF paper on feedback from compilers on their experiences with operational guidelines for compiling the reserves template.
Trade-in-Services	Clarify conceptual framework/classification.	IMF report on developments with the Manual on international trade in services.
Toward a sixth edition of the *Balance of Payments Manual*	Review *BPM5* to identify areas requiring updating.	Paper by IMF.
Reverse transactions	Clarify treatment of reverse transactions.	Draft IMF publication.
Implementation of *BPM5*	Update on implementation and practical difficulties in implementing *BPM5*.	Update of IMF paper on *BPM5* reporting to the IMF.
		Paper from Saudi Arabia on challenges in developing *BPM5* in a developing country.
Accrual of interest on debt securities	Consistency across systems, including balance of payments.	Paper by IMF and UK, summarizing contributions to IMF's website and OECD's electronic discussion group.
Medium Priority		
Direct Investment	Exchange of experience in compiling direct investment data.	IMF to report on updating of survey of national practices and on clarification of direct investment guidelines at meetings of ECB and OECD.
Global discrepancies	Indication of imbalances in global balance of payments statistics.	IMF to prepare paper on global imbalances.
Financial derivatives	Implementation of new standards; coordination work of BIS.	IMF to publish rewrite of *BPM5*. Progress report from BIS.
Training	Use of balance of payments data.	Report on investigations by IMF and Russia into developing course material.
Travel account	Issues on measurement of travel account in Chile and Germany.	Papers by Chile and Germany.
	Developments in travel account for Europe.	Paper from Eurostat.
Tourism Satellite Account	Developments in development of Tourism Satellite Account by the OECD and the World Tourism Organization.	Report by the IMF.
Monthly balance of payments	Advantages and disadvantages of compiling monthly balance of payments data.	Paper by Germany and United Kingdom.
Drug smuggling	Measurement of drug smuggling in the Russian balance of payments.	Paper by Russia.
Regional issues	Developments in balance of payments data at regional level.	Progress report from ECB and Eurostat.
Rent in balance of payments	Treatment of income from use of nonproduced, nonfinancial assets in the balance of payments.	Paper by IMF and Canada.
Low Priority		
Nonproduced, nonfinancial assets	Treatment of nonproduced, nonfinancial assets in the balance of payments and the IIP.	Paper by IMF and Canada.
Macroprudential indicators	Development of macroprudential indicators.	Progress report from IMF.