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To: Members of the Executive Board

From: The Secretary

Subject: 1994 Annual Report of the IMF Committee on
Balance of Payments Statistics

There is attached for the information of the Executive Directors the 1994 Annual Report of the IMF Committee on Balance of Payments Statistics. The report covers the Committee's second year of operation. The Committee's terms of reference, given in the Annual Report, call for the preparation of an annual report for presentation to the Managing Director. It is proposed to publish an edited version of the report at a later stage.

Mr. Gill (ext. 37921) or Mr. Motala (ext. 37981) is available to answer technical or factual questions relating to this report.

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Department Heads

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

ANNUAL REPORT, 1994



INTERNATIONAL MONETARY FUND

Statistics Department

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I. Introduction

The IMF Committee on Balance of Payments Statistics was established in 1992 to (1) oversee the implementation of the recommendations contained in the reports of two IMF Working Parties ^{1/} that conducted investigations into the quality of the national and global balance of payments statistics published by the Fund; (2) advise the Fund on methodological and compilation issues in the context of balance of payments and international investment position statistics; and (3) foster greater coordination of data collection among countries. The composition of the Committee as of the end of 1994 and its terms of reference are presented in Appendices 1 and 2, respectively. In the current year, the Committee held meetings in April 1994 (in Washington, D.C.) and in October 1994 (in Basle).

This annual report, which covers the Committee's second year of operation, is organized as follows. Section II presents an Executive Summary. Section III provides a brief overview of the statistical discrepancies in the global balance of payments statistics published by the Fund's Statistics Department. The Committee's program of work during 1994 is presented in Section IV. Section V discusses the plans of the Fund's members to implement the fifth edition of the *Balance of Payments Manual* (*Manual*), which was published in September 1993. Section VI sets out some of the issues that the Committee will address in the coming year.

II. Executive Summary

1. Recent trends in global balance of payments statistics

Balance of payments statistics reported to the Fund and published in Volume 45 (1994) of Balance of Payments Statistics Yearbook (*Yearbook*) continue to show large statistical discrepancies in the global current and capital accounts, each of which should, in principle, sum to zero at the world level.

The imbalances on the global current account, which averaged \$85 billion a year over the 1987-93 period, have remained relatively stable. The data continue to show a persistent understatement of current account credits--an understatement which is related mostly to the underrecording of investment income credits other than on direct investment.

The imbalances on global capital account statistics, which averaged \$100 billion a year over the seven-year period, increased considerably in the 1990s. The most disturbing trend is the emergence, in the 1990s, of large asymmetries in the data on portfolio investment capital flows. In 1993, recorded portfolio investment inflows (liabilities) exceeded measured outflows (assets) by nearly \$175 billion.

^{1/} Working Party on the Statistical Discrepancy in World Current Account Balances (*Final Report*, September 1987) and Working Party on the Measurement of International Capital Flows (*Final Report*, September 1992).

2. Committee program of work

In its second year of operation, the Committee made considerable progress in advancing the two main projects that were initiated in 1993--the conduct of coordinated portfolio investment surveys in respect of 1997 to improve international investment position estimates and the enhancement of the international banking statistics published by the Fund and the Bank for International Settlements (BIS) for use in balance of payments compilation.

With respect to the first project, the Fund established, at the request of the Committee, the Task Force on Coordinated Portfolio Investment Survey to work out a common set of concepts, definitions, and classifications to be employed in the portfolio investment surveys in order that meaningful data could be exchanged among the countries participating in the survey. In the first meeting of the Task Force, which was attended by representatives of 12 major industrial countries and the international organizations involved in this field of statistics, good progress was made in developing the statistical framework for the collection and exchange of information on stocks of cross-border securities.

Regarding the second project, the BIS is undertaking a pilot project to construct a separate database that will align the international banking statistics more closely with the balance of payments accounts. This will further the Committee's work on international banking statistics by making the data more usable for balance of payments compilers both in developing balance of payments estimates and in checking national data.

3. Implementation of Fifth Edition of the Balance of Payments Manual

As part of the Committee's program of work, the Fund's Statistics Department conducted a survey to assess the progress countries are making in introducing the guidelines set out in the revised *Manual* and to determine what assistance might be required to facilitate the exercise. The survey revealed that virtually all countries are making significant progress in introducing these new guidelines. Many of the countries that responded to the survey indicated that the Fund and the Committee could contribute to their efforts to advance implementation of the revised *Manual*. They noted that they could benefit from learning of the experiences of their counterparts in other countries and would welcome such information. The Committee's program of work for the coming year will address this issue.

III. Recent Trends in Global Balance of Payments Statistics

1. Introduction

The data published in Volume 45 of the *Yearbook* continue to show large discrepancies in global summations of the balance of payments statistics, especially in the capital account. However, it should be stressed that because of the impact of offsetting errors and omissions on the credit and

debit entries, the discrepancies in the global balance of payments aggregates are not wholly indicative of the magnitude of the errors that reside in the underlying measures of gross current and capital account transactions.

Beginning with data submitted in respect of the first quarter 1995, the Fund's Statistics Department will begin publishing its balance of payments statistics on the basis of the classification set out in the revised *Manual*. The Fund's existing database will be converted to approximate the classifications of the revised *Manual* by using conversion rules established for this exercise. In some cases, countries may be able to provide additional historical data on the basis of the new classification. As discussed in Section V of the report, many countries will not be in a position to adapt their existing systems entirely to the revised *Manual* during 1995, because of resource and other constraints. This may affect, at least in the short term, the magnitude of the asymmetries in some of the balance of payments aggregates that will be published from 1995. The Committee attaches great importance to the implementation of the *Manual*, and it will continue to work with the Fund to minimize global asymmetries.

2. Global current account

The global current account data summarized in Table 1 show an excess of recorded debits over credits averaging \$85 billion a year over the period 1987-93. However, these imbalances amount to less than one percent of the underlying gross transactions (i.e., the sum of credit and debit entries) registered over this period. The underrecording of investment income credits (other than on direct investment) continued to be the principal contributor to the current account imbalances. Recorded investment income debits (other than on direct investment) exceeded credits by over \$100 billion in each of the last three years. This trend is consistent with the widening gaps registered on capital account transactions, that is, capital inflows (liabilities) exceeding capital outflows (assets). The imbalance on total income transactions, as a percentage of gross income transactions, has remained stable over the period, averaging about four percent.

The data on services transactions also display a negative discrepancy (i.e., debits exceeding credits), which averaged \$33 billion a year (about 2 percent of the underlying gross transactions) over the 1987-93 period. Most of this imbalance is localized in the shipment account. In recent years, there have been sizable positive imbalances in the category other private services, which covers various types of business services transactions.

The discrepancy on merchandise trade is of the same order of magnitude, but in the other direction, that is, credits consistently exceeding debits. The discrepancy on merchandise trade widened to nearly \$50 billion in 1993 (less than 1 percent of the gross transactions), which may, in part, be related to statistical problems experienced in Europe in compiling intra-European Union (EU) trade data in 1993, following the deepening of the internal market in Europe.

Table 1. Global Balances on Current Account, 1987-93
(In billions of U.S. dollars)

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|--|-------|-------|-------|--------|--------|--------|--------|
| Current account balance | -60.4 | -65.3 | -85.0 | -100.5 | -103.4 | -106.3 | -75.4 |
| Trade balance | 22.4 | 32.7 | 19.5 | 25.8 | 27.8 | 33.0 | 46.9 |
| Services balance | -20.2 | -31.6 | -39.7 | -46.9 | -43.6 | -36.6 | -15.4 |
| Shipment | -31.3 | -33.1 | -35.6 | -40.0 | -43.9 | -46.9 | -43.0 |
| Other transportation | -0.1 | -0.5 | -3.7 | -5.1 | -3.6 | -5.4 | -5.0 |
| Travel | 1.6 | -3.1 | -1.1 | -0.3 | 3.8 | -0.6 | 5.0 |
| Other official services | -8.5 | -8.5 | -12.2 | -11.6 | -28.5 | -20.7 | -10.4 |
| Other private services | 17.9 | 13.7 | 12.9 | 10.1 | 28.6 | 37.1 | 37.9 |
| Income balance | -51.4 | -52.8 | -50.2 | -57.4 | -58.8 | -74.4 | -70.8 |
| Investment income balance | -48.0 | -47.8 | -46.5 | -51.3 | -53.2 | -69.2 | -68.3 |
| Reinvested earnings | 20.7 | 20.1 | 28.9 | 50.0 | 48.5 | 34.7 | 44.0 |
| Other direct investment income | -3.0 | 3.0 | 6.5 | -7.0 | -0.1 | 3.5 | -1.7 |
| Other investment income | -65.8 | -70.9 | -81.9 | -94.3 | -101.7 | -107.4 | -110.6 |
| Labor income | -2.2 | -2.6 | -2.9 | -6.1 | -5.7 | -6.6 | -6.1 |
| Property income | -1.1 | -2.3 | -0.8 | 0.0 | 0.2 | 1.4 | 3.6 |
| Transfers balance | -11.1 | -13.6 | -14.7 | -22.0 | -28.8 | -28.3 | -36.1 |
| Private transfers | 6.6 | 4.0 | 5.7 | 8.3 | -2.4 | 2.7 | -6.9 |
| Official transfers | -17.8 | -17.6 | -20.5 | -30.3 | -26.4 | -31.0 | -29.2 |
| <i>Memorandum items</i> | | | | | | | |
| Trade balance as percent of gross trade transactions | 0.5 | 0.6 | 0.3 | 0.4 | 0.4 | 0.5 | 0.7 |
| Services balance as percent of gross services transactions | 1.8 | 2.5 | 2.9 | 2.8 | 2.5 | 1.9 | 0.8 |
| Income balance as percent of gross income transactions | 5.1 | 4.3 | 3.3 | 3.2 | 3.2 | 3.9 | 3.7 |
| Transfers balance as percent of gross transfer transactions | 3.1 | 3.3 | 3.4 | 4.0 | 4.3 | 4.5 | 6.0 |
| Current account balance as percent of gross current account transactions | 0.8 | 0.8 | 0.9 | 1.0 | 0.9 | 0.9 | 0.7 |

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 45, Part 2 (Washington, 1994).

The negative discrepancy (i.e., debits exceeding credits) on transfers shows an upward trend in the 1987-93 period, reaching \$36 billion in 1993. These imbalances reflect, in large part, the recording of higher official sector aid disbursements by industrial countries relative to the credits that are registered by the recipient developing countries. A considerable part of these imbalances may relate to problems in the valuation of aid received by developing countries in the form of goods and services.

3. Global capital account

In summing recorded capital account transactions, the global data presented in Table 2 show an excess of recorded credits over debits averaging about \$100 billion a year over the 1987-93 period. Unlike in the current account, the imbalances in the standard components that make up the capital account are more variable. The discrepancy on portfolio investment transactions widened dramatically in the last three years, where recorded capital inflows (liabilities) exceeded outflows (assets) by \$118 billion a year. By comparison, during the 1987-90 period the imbalances on portfolio investment transactions averaged only \$6 billion a year. The underrecording of portfolio investment assets was mostly on account of cross-border bond transactions. ^{1/} As the G10 countries accounted for over 90 percent of the recorded net flow of funds into foreign bond and equity portfolio securities in the last three years, the deterioration in the data on portfolio capital flows is most likely to stem mainly from securities transactions conducted by these countries.

Several major industrial countries acknowledge difficulties in achieving adequate coverage of portfolio capital outflows, in large part because of the growing importance of securities transactions conducted abroad directly by the household sector, i.e., where domestic financial intermediaries are not used. Apart from this issue of coverage, wherein perceptions of the magnitude of the problem differ greatly among countries, several classification issues may also be contributing significantly to the discrepancies in the global aggregates on portfolio investment transactions.

One classification issue is the comparison of global portfolio investment assets with liabilities: recorded liabilities constituting foreign authorities' reserves (LCFAR) must be deducted from portfolio liabilities, because the counterpart assets are recorded under the category of reserves. The recording of LCFAR by debtor countries, especially in connection with portfolio investment transactions, is known to be poor. For this reason, the Fund's Statistics Department implemented a survey to gather, on a confidential basis, information from large reserve-holding countries on the composition of their foreign exchange reserve transactions

^{1/} The discrepancies may also stem, in part, from an overstatement of portfolio liabilities.

Table 2. Global Balances on Capital Account, 1987-93
(In billions of U.S. dollars)

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|--------|--------|--------|--------|--------|--------|--------|
| Capital account balance | 74.0 | 72.3 | 54.8 | 84.6 | 157.6 | 139.4 | 96.7 |
| Direct investment | -8.6 | -12.1 | -29.0 | -32.2 | -33.5 | -28.2 | -14.7 |
| Abroad | -137.0 | -168.1 | -225.6 | -238.5 | -190.9 | -183.6 | -188.0 |
| In the reporting economy | 128.3 | 156.0 | 196.6 | 206.3 | 157.4 | 155.5 | 173.3 |
| Portfolio investment | 5.6 | -1.5 | 24.0 | -2.8 | 100.0 | 80.3 | 172.5 |
| Assets | -120.7 | -204.4 | -289.5 | -187.4 | -320.2 | -352.1 | -506.4 |
| Liabilities | 126.3 | 203.0 | 313.5 | 184.6 | 420.1 | 432.4 | 678.9 |
| Other capital | 77.0 | 82.6 | 62.0 | 152.4 | 115.1 | 107.2 | -5.3 |
| Assets | -581.5 | -448.9 | -622.5 | -558.6 | 17.6 | -243.7 | -332.6 |
| Liabilities | 658.5 | 531.5 | 684.6 | 711.0 | 97.5 | 350.9 | 327.3 |
| Reserves | -153.0 | -40.7 | -50.1 | -92.5 | -55.9 | -63.3 | -88.1 |
| Liabilities constituting foreign authorities' reserves | 153.1 | 43.9 | 48.0 | 59.7 | 32.0 | 43.3 | 32.4 |
| <i>Memorandum items</i> | | | | | | | |
| Current account balance | -60.4 | -65.3 | -85.0 | -100.5 | -103.4 | -106.3 | -75.4 |
| Net errors and omissions | -13.6 | -7.0 | 30.2 | 15.9 | -54.2 | -33.1 | -21.3 |

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Volume 45, Part 2 (Washington, 1994). In the capital account, no sign indicates an excess of recorded inflows over outflows; a negative sign indicates an excess of recorded outflows. The reported data for liabilities constituting foreign authorities' reserves were adjusted for the years 1987-89 to take account of information on the composition of reserve flows contained in the *Report on the Measurement of International Capital Flows*; data for 1990-93 were adjusted on the basis of information collected by the Fund from a sample of large reserve-holding countries.

by type of financial instrument. ^{1/} These creditor-source data can be used to derive improved measures of LCFAR at the global level, enabling the Fund and the Committee to better monitor the asymmetries in the standard components of the global capital account. Overall, response to the Fund survey has been excellent; only a few important reserve-holding countries, notably Japan and France, have, to date, not provided information.

Another classification issue that may be contributing to the large asymmetries in portfolio transactions may be different treatments accorded by countries in their recording of financial flows relating to repurchase agreements and stock lending. This issue will be examined by the Task Force on Coordinated Portfolio Investment Survey.

On direct investment capital flows, the imbalance between asset and liability transactions has remained relatively small and unchanged over the seven-year period under review. The global data show an excess of recorded capital outflows averaging less than \$25 billion a year. This imbalance occurs, in large part, because many countries do not compile estimates of reinvested earnings.

On all other capital flows (i.e., other than direct investment, portfolio investment, and reserves), an abrupt change in the direction of the discrepancy was registered in 1993. The data for the period 1987-92 show an excess of recorded credits over debits of \$100 billion a year, whereas in 1993 the imbalance swung to a small net debit position. There are likely to be many offsetting errors among the different types of capital flows recorded under this broad category. The revised *Manual* provides for greater detail on financial instruments and, when fully implemented by countries, should facilitate the task of tracing the source of some of these discrepancies.

IV. Program of Work Undertaken by the Committee--1994

Two projects initiated by the Committee in 1993--the conduct, primarily among the major industrial countries, of coordinated portfolio investment surveys for the collection of position data on portfolio securities, and the enhancement of the BIS' international banking statistics for use in the compilation of balance of payments estimates related to nonbank transactions with nonresident banks--remained the key items in the Committee's work program in 1994. The Committee also noted progress on reporting of reinvestment of earnings data, conducted further research into recording issues related to the measurement of cross-border transactions in financial derivatives, and examined discrepancies in bilateral data for selected international services transactions, an area of increasing importance to

^{1/} The Fund implemented the survey in response to a major recommendation contained in the Final Report of the Working Party on the Measurement of International Capital Flows.

policymakers in many countries. The Committee also continued to monitor progress being made at the national and international level to implement EDIFACT, which is a standardized codification for the electronic transmission of messages between data users and suppliers.

1. Coordinated portfolio investment survey

Following its research of discrepancies in global portfolio investment flows, the Fund's Working Party on the Measurement of International Capital Flows recommended in a report published in 1992 the conduct of coordinated benchmark surveys of cross-border portfolio investment positions among the major industrial countries. In addition to improving the quality of a country's portfolio stock estimates, the information from such benchmark surveys could also provide a useful check on the coverage of the portfolio capital flow and investment income estimates recorded in the balance of payments. Furthermore, subject to confidentiality constraints, the exchange of data among participating countries would help to close recording gaps.

Stock data are a valuable adjunct to the balance of payments data, providing policymakers and other users with additional information to analyze developments in a countries' external position. As noted in Section III, a global view of the balance of payments statistics shows that a serious deterioration has occurred in the last three years in the recording of portfolio investment flows. The Committee believes that, with the participation of a sufficient number of the larger industrial countries and adoption of a consistent methodological approach, coordinated surveys of portfolio investment positions will yield much valuable information to improve the quality of this important body of statistics and to provide, for the first time, extensive detail on the geographic distribution of ownership of portfolio securities.

As many industrial countries do not have experience in conducting benchmark surveys of portfolio investment positions, a sufficient lead time will be required to develop appropriate statistical methodologies and processing systems, as well as to secure necessary financial, legal, and other resources. The Committee has targeted the end of 1997 as the reference period for the surveys.

At the request of the Committee, the Fund wrote to the heads of central banks and central statistical agencies in a number of industrial countries ^{1/} to enlist the support of the authorities for the participation of their countries in the coordinated surveys. The Committee will seek to secure agreements from these countries during 1995.

^{1/} Australia, Austria, Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

In preparing for the surveys, the Committee also asked the Fund to constitute a task force, to be comprised of compilers and collectors of balance of payments and international investment position data in the major countries, to draw up a time table and detailed specifications of the requirements to achieve the objectives of the survey. A total of 12 countries sent representatives to the first meeting of the Task Force on Coordinated Portfolio Investment Survey, which was held at the BIS in October 1994. The composition of the Task Force and its terms of reference are given in Appendices 3 and 4, respectively.

At its meeting, the Task Force devised a program of work to undertake, in a pragmatic way, the tasks set out in its Terms of Reference. A key facet of the work involved the identification of the minimum data requirements needed for purposes of data exchange, while being mindful of the costs and respondent burden that this would entail. Technical issues regarding specific market activities (e.g., bond lending and repurchase agreements) are being examined to assess how they should be recorded in the survey. An ambitious program of work was agreed upon for the period leading up to the second meeting of the Task Force, which will be held in April 1995.

Both the Committee and the Task Force recognize that it is highly unlikely that the coordinated survey will achieve complete coverage of cross-border securities positions in this first ever international undertaking. For example, large securities positions are booked at offshore financial centers, which may not participate in the survey. Nevertheless, it is expected that the coverage of securities positions of industrial countries will be adequate to provide the participating countries, as well as other countries and international organizations, with much useful information to analyze national data and to fill gaps in the data. It has been agreed that all countries participating in the survey will at least cover their holdings of foreign assets, which will be classified according to the country of issuer. In connection with the work on the coordinated survey, the Committee and the Task Force will also investigate the possibility of effecting certain improvements to international securities codes, created to facilitate securities settlements, to enhance their usage in the compilation of balance of payments and international investment position statistics.

2. International banking statistics

The reports of two IMF Working Parties that conducted research into the discrepancies in the global current and capital account statistics published by the Fund urged national compilers to investigate the international banking statistics published by the BIS and the Fund as a potential data

source for checking and/or compiling balance of payments estimates. ^{1/} The Committee has studied these data and strongly believes the international banking statistics can assist national compilers in industrial and developing countries to improve their countries' balance of payments estimates of nonbank transactions with nonresident banks.

Although the international banking statistics were not established for use in balance of payments compilation, the correspondence between the two sources is often quite close. A number of countries already use the banking statistics to complement their balance of payments reports. Three years ago, the United States began to substitute the international banking statistics of selected countries for U.S. source data on nonbank claims on foreign banks to improve coverage. In the past year, the use by the United States of foreign banking statistics was expanded significantly by substituting counterpart data for many additional countries covered in the BIS reporting system. The impact of these substitutions on the U.S. accounts was dramatic; the stock of U.S. nonbank financial claims on nonresidents as of year-end 1993 was raised, in total, by over \$200 billion. A similar increase was recorded in U.S. nonbank liabilities to unaffiliated nonresidents, where, because of classification differences, fewer data substitutions could be effected. The new position data, when converted to flows, showed substantially higher capital flows and related investment income receipts and payments than were previously published.

At the request of the Committee, the Fund wrote to the heads of central banks in 11 industrial countries to enlist their support for the Committee's work to better align the international banking statistics with the balance of payments accounts. Responses received from these institutions were supportive of this initiative.

The financial instruments covered in the BIS' international banking statistics on banking claims differ in certain respects from the counterpart balance of payments statistics on nonbank borrowing from nonresident banks. The major difference is the treatment of banks' holdings of international securities, which is included in the former but excluded from the latter. ^{2/} This is probably the single most important factor that limits the use of the international banking statistics on cross-border banking claims. In this regard, the Committee is pleased to report two important

^{1/} International banking statistics are constructed from reports filed with the BIS by the major banking centers on their banks' cross-border assets and liabilities. When aggregated across countries, these data provide fairly comprehensive estimates of nonresident banks' claims on, and liabilities to, the bank and nonbank sectors in individual countries. As most countries report the banking positions by currency, exchange rate adjusted changes in the positions can be calculated; they can be used as proxy measures for balance of payments transactions.

^{2/} Securities transactions of banks are included indistinguishably under portfolio investment in the balance of payments statistics.

developments that, if implemented, will make the international banking statistics more usable and accessible to balance of payments compilers. Firstly, the BIS has undertaken a pilot project whereby it will create a separate database in which the reported data on external banking claims will be adjusted to exclude banks' holdings of international securities. Secondly, the Committee member from Japan, whose banks are among the largest holders of international securities, reported that the Japanese authorities will, in the near future, be able to provide the BIS with partial information on the geographic distribution of Japanese banks' holdings of securities. This will greatly enhance the coverage of bank reporting on securities positions. These two initiatives hold considerable potential to enhance the BIS' banking statistics for balance of payments compilation.

In the past year, the BIS also undertook a detailed review of country reporting practices in their submissions of quarterly banking statistics to the BIS. This exercise was undertaken in connection with updating their Guide to the BIS Statistics on International Banking, which will provide users of these statistics with detailed information on the nature and coverage of these statistics.

3. Reinvested earnings

In its final report published in 1992, the Working Party on the Measurement of International Capital Flows noted that many countries did not report the reinvestment of earnings of multinational enterprises as direct foreign investment in their balance of payments reports to the Fund. The report noted that it was particularly important that major countries implement collections in this area. The Committee is pleased to report that Canada has recently developed new statistical series on reinvested earnings, which were included in the balance of payments accounts back to 1983. In the near future, France will provide the Fund with statistical series on reinvested earnings for the period 1989-92. Estimates are also being prepared for more current periods.

4. Financial derivatives

The fifth edition of the *Manual* and the 1993 *System of National Accounts (SNA)* set out guidelines for the recording of transactions and associated stocks of financial derivatives. At the time these international guidelines were drafted, few countries had expertise in the collection of data on these instruments. Indeed, present collection systems in many countries still do not explicitly take account of financial derivatives in the compilation of balance of payments and international investment position statistics.

Under the aegis of the BIS, the Survey of Foreign Exchange Market Activity and Derivatives Market Activity will be conducted in the spring of 1995. The inclusion, for the first time, of financial derivatives in this triennial survey will provide balance of payments compilers with useful

information (though at nominal or notional principal amounts rather than the balance of payments requirement of market values for the derivatives contracts themselves) on the key characteristics of certain types of derivatives and on the participants in these transactions.

As national compilers began investigations in this area, they encountered some complexities in implementing the international guidelines for the recording of financial derivatives. At its meeting in October 1994, the Committee discussed papers prepared by compilers in Australia and the United Kingdom. The U.K. paper raised questions concerning the *SNA* and the *Manual's* treatment of interest rate swaps (recorded in the current account rather than in the financial account where most other financial derivatives are classified) and the recording of variation margins related to financial derivatives. As these issues have implications for the collection and interpretation of the data, and may also impose an additional reporting burden on respondents, the Committee recommended that the Fund establish a small informal group to provide clarification and guidance on these issues. The Committee attaches a high priority to this work, as countries are beginning to implement new collections in this area.

5. International services

During 1994, the Committee undertook some preliminary investigations into the measurement of international trade in insurance and financial services and the analysis of bilateral asymmetries in the data on international travel and selected business services transactions. In the fifth edition of the *Manual*, a clear distinction is made in the current account between services and income, which previously were grouped together. In addition, the data on trade in services were disaggregated to provide additional detail for policy purposes, given the diversity and growing importance of international services transactions.

In the revised *Manual*, international insurance services are estimated by the service charges included in total premiums payable plus agent commissions, rather than by total premiums themselves. ^{1/} The *Manual* suggests a number of ways in which the service charge can be estimated. The Committee considered a paper prepared by the Australian Bureau of Statistics (ABS) on a new survey to improve measures of international insurance services. With further development, the ABS expects to be able to compile estimates of insurance services in accordance with the methodology recommended in the revised *Manual*. The paper also covered research undertaken by the ABS to develop methodologies for estimating the implicit service fee earned from foreign exchange trading. The Bank of England has also investigated various methods, consistent with the guidelines in the

^{1/} For non-life insurance, total premiums minus the estimated service charge and claims payable should be recorded under current transfers. For life insurance, premiums minus the service charge and claims payable should be recorded in the financial account under other investment.

revised *Manual*, of producing estimates of banks' foreign exchange service earnings. The U.K. Central Statistical Office has incorporated these estimates into its current account statistics. The Bank's estimates are based on the application of market spreads on foreign exchange trading to turnover volumes; the Bank, like the ABS, has found that the estimates were highly sensitive to the assumptions that underlie the methods.

The Committee also undertook an analysis of asymmetries in the bilateral data of selected countries in the area of international travel and business services. At the request of the Committee, the Fund's Statistics Department prepared questionnaires to collect bilateral data in these two areas. The use of different criteria to allocate bilateral travel transactions and different definitions in the classification of business services ^{1/} limited the utility of the bilateral data. However, the Committee saw considerable advantage in the exchange of information on national compilation methods, which, in addition to enhancing understanding of partner country data, would aid in harmonizing compilation practices and also assist countries in implementing the recommendations of the revised *Manual*.

6. Electronic Data Interface for Administration,
Commerce, and Trade (EDIFACT)

In the past year, the Committee continued to monitor the progress being made at the national and international level to implement EDIFACT, which is a standardized format and codification for the electronic transmission of messages. The Statistical Office of the European Communities (EUROSTAT) established an EDIFACT Balance of Payments Task Force in 1991, whose objective, inter alia, was to promote the use of EDIFACT as a tool for balance of payments reporting. It is expected that a decision will be taken in early 1995 to approve the BOPSTA message, which was designed for reporting balance of payments data to international organizations. The Fund's Statistics Department is supportive of the implementation of standardized data exchange mechanisms, and is currently conducting a pilot project with the National Bank of Belgium and the Bank of Spain to receive statistical information via EDIFACT.

7. The Balance of Payments Statistics Newsletter

The Fund's Statistics Department published two issues of the *Balance of Payments Statistics* newsletter in 1994, which included articles contributed by Committee members. The biannual newsletter was initiated in 1993 at the request of the Committee as a means of keeping balance of payments compilers and users of these statistics informed of methodological and other statistical developments occurring at the national and international level. Feedback received from readers continued to be favorable.

^{1/} There was only limited disaggregation of detail in the classification of services in the fourth edition of the *Balance of Payments Manual*.

In the current year, the newsletter reported on the findings from two Fund surveys on the efforts being made by countries to improve their balance of payments statistics and on their plans to implement the revised *Manual*. These issues form an integral part of the Committee's ongoing work program. Other articles covered, inter alia, developmental work on trade in services statistics in Australia, Chile, and the United Kingdom, and U.S. research in developing supplemental balance of payments data to analyze globalization of production ("establishment trade statistics").

V. Implementation of Fifth Edition of the *Balance of Payments Manual*

As a part of the work program of the IMF Committee on Balance of Payments Statistics, the Statistics Department of the Fund conducted a survey of its member countries to assess progress countries are making in implementing the guidelines of the fifth edition of the *Balance of Payments Manual*. Responses were received from more than 50 of the Fund's members. The survey results show that a number of countries have made significant strides toward attaining this objective. Others are exploring ways to introduce the changes recommended in the document.

Virtually all respondent countries reported that they were endeavoring to incorporate as many of the new features as feasible in their data systems. Nonetheless, they maintained that full implementation of most of the guidelines would take considerable time, the cooperation of national authorities and data providers, and much effort on the part of compilers. Respondents believed they could learn from one another's experiences. Some developing countries further noted that technical assistance from the Fund would be needed if they were to follow the guidelines and improve their balance of payments data.

Respondent countries said they found it easiest to implement those changes recommended by the revised *Manual* that merely reclassify balance of payments accounts, as opposed to those that require generating new information. The former include:

- Redefining the current account to exclude capital transfers, which the revised *Manual* includes in the capital account (although several countries indicated that their present collection systems did not provide for a ready separation of current and capital transfers);
- Distinguishing goods, services, incomes, and current transfers within the current account; and
- Redesignating the former "capital account" as the "capital and financial account," with separate components for capital and financial transactions.

Compilers stated that they had the greatest difficulty adhering to guidelines in cases where they lacked the required data and saw little prospect of soon acquiring them. Although experiences differed among countries, one or more of the following guidelines were mentioned by most of the respondents in this regard:

- Implementing the "accrual" principle for recording interest (especially for countries that currently rely on bank transaction records as their major data source; such records generally contain only actual payment information);
- Expanding coverage of portfolio investment to include money market instruments (previously included under "Other Investment" in the fourth edition of the *Manual*) and financial derivatives;
- Developing regional presentations of data on transactions and stocks; and
- Generating data on the international investment position (especially in the case of developing countries).

Among the factors cited as hampering implementation of the guidelines were:

- Budgetary, personnel, and other resource constraints that make it difficult to obtain additional data;
- Limited cooperation from other government agencies and data providers in the private sector; and
- Insufficient technical expertise, especially in the case of developing countries, to undertake specific changes recommended in the *Manual*.

Despite the difficulties countries envisage in introducing some of the guidelines, virtually all stated that they would consider expanding their current surveys, tapping other data sources, or developing appropriate estimation procedures to augment their existing data. Specifically, most mentioned that they would examine ways to provide greater detail to increase the analytical usefulness of several data components, as recommended in the revised *Manual*. These include:

- Disaggregating data on goods by general merchandise, goods for processing, repairs, and goods procured in ports by carriers;
- Collecting comprehensive data on insurance and other business and professional services (especially financial services);

- Distinguishing current and capital transfers; and
- Compiling direct investment data primarily on a "directional basis" (that is, distinguishing inward and outward direct investment), as recommended in successive editions of the *Manual*.

Most respondents reported that they planned to modify their national balance of payments presentations to conform with the guidelines of the fifth edition. Some anticipated making only a partial change in their national presentations, at least at the outset. About half of the industrial countries that responded to the survey indicated they would attempt to present their most recent historical data in the fifth edition format and publish them as revised time series. Almost all of the developing countries canvassed stated that it would be difficult for them to provide revised historical series because of resource constraints.

Progress toward adopting the guidelines is well under way in a number of countries. Notably, the United States reported that it has implemented, or will implement, most of the changes; some were already in place before the fifth edition of the *Manual* was issued. Italy started to implement the new guidelines in 1994, while Belgium, France, and the Netherlands will begin implementing them in 1995, and Japan in 1996. Other industrial countries--such as Australia, Canada, Germany, and the United Kingdom--have established target dates (mostly in 1996 and 1997) for implementation of the guidelines and have convened task forces to monitor progress. A few developing countries, including Chile, the Czech Republic, Peru, Singapore, and Venezuela, are actively reviewing the necessary steps to introduce the recommended changes. Virtually all countries reported that they intend initially to adopt the guidelines that appear likely to entail relatively low costs, however measured, and high payoffs.

To harmonize balance of payments data and those of the national accounts, as recommended in the fifth edition of the *Manual*, a number of countries indicated that their efforts to implement the guidelines parallel steps they are taking to introduce the standards set forth in the 1993 *System of National Accounts*. These countries include Australia, Canada, France, Norway, the United Kingdom, and the United States. In addition, in the case of the European Union, the adoption of the guidelines is being considered along with efforts to develop a consolidated European balance of payments statement.

Most respondent countries indicated that the Fund and its Committee on Balance of Payments Statistics could contribute to their efforts to advance implementation. Many developing countries expressed a desire for technical assistance from the Fund that would better enable them to cope with a variety of methodological and practical concerns related to the guidelines. Industrial countries more often cited the need for the Committee's assistance on specific issues, such as the treatment of the various types of financial derivatives.

More generally, both developing and industrial countries welcomed the Fund's efforts to monitor the progress they were making as they endeavored to implement the new guidelines and to take other steps to improve their balance of payments data.

VI. Future Work Program

The Committee will continue its work on two key projects--preparations for the 1997 coordinated portfolio investment survey and enhancement of the international banking statistics for use in balance of payments compilation. In 1995, the Task Force on Coordinated Portfolio Investment Survey expects to complete most of its research, which inter alia, will set out the common classifications, definitions, and concepts that countries would need to adhere to in order for a meaningful exchange of data to take place. The Task Force will also prepare model survey forms and reporting guides and conduct pilot studies in selected countries to ensure that respondents will be in position to complete all aspects of the survey. In the coming year, the Committee will endeavor to elicit the participation of a core group of countries needed to ensure that the survey will be a success.

In its work on the harmonization of European balance of payments statistics, the European Monetary Institute (EMI) is investigating the feasibility of enhancing the International Securities Identification Code (ISIN) for use in the compilation of balance of payments statistics on portfolio investment capital flows and stocks. The Task Force also envisages an important use being made of the ISIN code in statistical collections, especially in the identification of the country of the issuer of securities. In collaboration with the EMI, the Committee will explore as a matter of priority how ISIN and related codes could be utilized to collect balance of payments information.

In the area of international banking statistics, the Committee will investigate whether further improvements to these data could be made at reasonable cost. The issue of providing national compilers with fuller information on the underlying methodology used in the construction of these figures will also be examined.

In the coming year, the Committee is planning a number of initiatives to assist countries to implement, in a pragmatic way, aspects of the fifth edition of the *Manual*. Firstly, the United States and a number of other countries represented on the Committee volunteered to make available reporting forms and related documentation pertaining to the recording of direct investment transactions and stocks, which the Fund will disseminate to countries who may find it useful in implementing statistical collections in this area or in upgrading existing collections. If proven useful, this exchange could be extended into other areas at a later date. Secondly, selected balance of payments recording issues will be examined by the Committee, with a view to clarifying, in selected areas, the guidelines set out in the revised *Manual*; the aim would be to assist in their

implementation at the national level. Areas targeted include the measurement of insurance services, valuation of direct investment stocks, compilation of estimates of reinvested earnings, recording of income on an accrual basis, and the identification of capital transfers. This material, which would also be distributed to the Fund members, will augment the information contained in the Fund's *Balance of Payments Compilation Guide* (to be released in early 1995) and the *Balance of Payments Textbook* (to be available in the spring of 1995). In this connection, the Fund will also intensify its efforts to provide technical assistance to developing countries.

The Committee will conduct further research into the recording of cross-border transactions in financial derivatives; a small informal expert group will be constituted to examine recording issues related to a few specific financial instruments, namely, the treatment of interest rate swaps, forward rate agreements, and variation margin payments in connection with financial derivatives.

A key item in the Committee's terms of reference is to oversee the implementation of the recommendations presented in the final reports of the two IMF Working Parties that investigated discrepancies in national and global balance of payments statistics. The Committee's 1993 *Annual Report* contained a separate section on this issue. In the coming year, the Committee will assess the further progress being made by a group of selected countries.

Lastly, the Fund implemented a survey to collect, from selected industrial countries, bilateral information on their balance of payments transactions with the countries of the former Soviet Union in 1993. This will help to fill data gaps in those countries where collection systems have not yet been implemented; it will also assist the Fund in its technical assistance work in these countries. A reporting system will be implemented in the coming year for the regular transmission of these data to the Fund's Statistics Department.

IMF Committee on Balance of Payments Statistics

Composition as of December 31, 1994

Chairman

John B. McLenaghan
IMF, Statistics Department

Members

Marc Auboin
Ministry of Finance, France
Gérard Béduneau
Banque de France
Antonello Biagioli
Ufficio Italiano dei Cambi
Teresa Cornejo Black
Banco Central de Chile
Peter Cornet
De Nederlandsche Bank N.V.
Barbara Dunlop
Australian Bureau of Statistics
Mahinder S. Gill
IMF, Statistics Department
Pius P. Kallaa
Central Bureau of Statistics,
Kenya
Lucie Laliberté
Statistics Canada
Lau Kak En
Department of Statistics,
Singapore
Hamaji Motegi 1/
Bank of Japan
Gerald A. Pollack 2/
U.S. Department of Commerce

Rudolf Seiler
Deutsche Bundesbank
Kazuko Tanaka
Ministry of Finance, Japan
Philip Turnbull 3/
Central Statistical Office,
United Kingdom

Representatives of International Organizations

Peter Bull
European Monetary Institute
Christina Kruse
European Monetary Institute
Jean-Claude Roman
Statistical Office of the
European Communities
Philip Turner
Bank for International
Settlements
Nicholas Vanston
Organization for Economic
Cooperation and Development

Secretariat

Jan Bové
IMF, Statistics Department
John Motala
IMF, Statistics Department

1/ Succeeded Madoka Takano
2/ Succeeded J. Steven Landefeld
3/ Succeeded John E. Kidgell

Terms of Reference of the
IMF Committee on Balance of Payments Statistics

1. The Committee will oversee the implementation of the recommendations presented in the *Report on the Measurement of International Capital Flows* and in the *Report on the World Current Account Discrepancy*, advise the Fund on methodological and compilation issues in the context of balance of payments and international investment position statistics, and foster greater coordination of data collection among countries.
2. The Committee will bring to the attention of the Fund new developments which impact on the compilation of statistics of cross-border transactions or related stocks of financial assets and liabilities, and work with the Fund in determining how these activities should be treated in accordance with the *Balance of Payments Manual*.
3. The Committee will investigate ways in which data collection can be better coordinated among countries, with a view, inter alia, to facilitating the exchange of statistics among countries (e.g., bilateral transactions or stock data). It will also identify related areas for study and determine how work in those areas should be carried forward.
4. In carrying forward its work, the Committee will collaborate with other national compilers and with appropriate international organizations.
5. In consultation with the Fund's Statistics Department, the Committee will determine its program of work, and will meet under Fund auspices at least once a year.
6. The Committee will prepare an annual report for presentation to the Managing Director of the Fund.

IMF Task Force on Coordinated Portfolio Investment Survey

Composition as of December 31, 1994

Chairwoman

Lucie Laliberté
Statistics Canada

Members

Hisakazu Akatsuka
Ministry of Finance, Japan
Michael Andreasch
Austrian National Bank
Christopher Bach
U.S. Department of Commerce
Gunnar Blomberg
Sveriges Riksbank
Frieda Donkers
National Bank of Belgium
Barbara Dunlop
Australian Bureau of Statistics
William Griever
U.S. Treasury
Robert Heath
Bank of England
Caroline Lakin
Central Statistical Office,
United Kingdom

Francesco Loi
Ufficio Italiano dei Cambi
Guido Melis
National Bank of Belgium
John Motala
IMF, Statistics Department
Toshio Okamoto
Bank of Japan
Marc Schweitzer
Banque de France
Rudolf Seiler
Deutsche Bundesbank
R.P. Sparling
De Nederlandsche Bank N.V.

***Representatives of International
Organizations***

Ayse Bertrand
Organization for Economic
Cooperation and Development
Christina Kruse
European Monetary Institute
Rainer Widera
Bank for International
Settlements

Terms of Reference
IMF Committee on Balance of Payments Statistics
Task Force on Coordinated Portfolio Investment Survey

1. The IMF Committee on Balance of Payments Statistics intends to coordinate arrangements, primarily among the major industrial countries, for the conduct of coordinated national surveys of cross-border portfolio investment assets (and where feasible, liabilities) as at December 31, 1997. The objectives of the survey are twofold:
 - (i) to collect comprehensive information, with geographical detail, on the stock of cross-border equities and long-term bonds and notes for use in the compilation or improvement of international investment position (IIP) statistics on portfolio investment capital. The IIP statistics, in turn, can provide information to check the coverage of recorded estimates of portfolio investment capital flows and associated investment income transactions recorded in the balance of payments; and
 - (ii) to exchange the bilateral data. When the results of the survey become available, the participating countries, with the assistance of the Fund's Statistics Department, plan to exchange these data among themselves and with other countries. By exchanging comparable data (so far as confidentiality constraints permit) participating countries should be able to improve their estimates of nonresident holdings of their portfolio investment liabilities as well as associated capital flows and investment income data.
2. A representative group of collectors and compilers of balance of payments and international investment position data--the Task Force on Coordinated Portfolio Investment Survey--is being constituted under the auspices of the Committee to assist in the conduct of the survey.
3. Under the direction of the Committee, the Task Force will:
 - (i) draw up a detailed specification of the minimum amount of information required to achieve the objectives of the survey, including issues of valuation, definition, and classification to be used in the survey and the expected output from the survey;
 - (ii) draw up model questions and notes for inclusion in countries' questionnaires;

- (iii) draw up a few model survey designs that are consistent with the objectives of the survey and assess their respective costs and merits;
 - (iv) draw up proposals on whether all or parts of the exercise should be the subject of pilot investigations in one or more countries;
 - (v) recommend a timetable for carrying out the exercise, including the preparation and circulation of results; and
 - (vi) examine the means of disseminating survey results, commenting in particular on any confidentiality restrictions.
4. The coverage of portfolio investment should include, at least, equity securities and debt securities (long-term bonds and notes). The Task Force will make every effort to conform to the concepts, definitions, and valuations set out in the fifth edition of the *Balance of Payments Manual*. In carrying forward its work, the Task Force will also take account of the work undertaken by the OECD Working Group on Harmonized Investment Definitions.
5. The Task Force will determine the frequency and timing of its meetings. After each meeting, a summary of discussion from the meeting will be submitted to the Committee, and a final report of the Task Force will be presented to the Committee by March 31, 1996. The Committee may then reconstitute the Task Force to refine the scope of the exercise.
6. The IMF's Statistics Department will act as Secretariat.

