

Standardized Statistical Definition of Net International Reserves

PRESENTATION TO BPTT

NOVEMBER 30, 2021

Presentation Outline

1. Context
2. Existing definitions and concepts
3. Proposed definition: objective, proposal, and key features
4. Data considerations
5. Other considerations
6. Questions for discussion

Context

Net International Reserves:

- No standardized statistical definition
- Widely used term, with wide variation both conceptually and computationally

Existing discussions and definitions:

- 1) IMF Guidance Note on the Assessment of Reserve Adequacy
- 2) Discussion in IRFCL Guidelines (relies on *BPM6* definition of reserve-related liabilities)
- 3) Use of NIR in IMF-supported programs (sample definition and practice)

1) IMF Guidance Note on the Assessment of Reserve Adequacy

Provides a comprehensive definition of net international reserves:

Measures of net reserves subtract predetermined short-term drains (due to both **non-residents** as well as **residents**) from the official reserve position. The drains can arise from on-and-off balance sheet activities, where the latter could take the form of activated swaps, forward positions that unwind, and the former could be short-term FX liabilities (e.g., FX deposits, including cash outflows derived from repos) that are used to fund the reserve asset position.

The ARA guidance note emphasizes the importance of country specific risk factors in reserve adequacy assessments and in the use the metrics.

2) Discussion in IRFCL Guidelines

- Defines NIR as reserves minus reserve-related liabilities
- Relies on *BPM6* definition of reserve-related liabilities
 - Implies that only liabilities to non-residents are included in reserve-related liabilities

3) Use of NIR in IMF-supported programs

Sample definition (excerpt):

- NIR is defined as reserves assets minus reserve liabilities.
- Reserves liabilities are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives and all credit outstanding from the Fund

Practice (review of 37 TMUs):

- Definitions in TMUs vary significantly, reflecting the need for operational definitions that fit the specific circumstances of each country
- Variations across TMUs: IMF credit (all include in RL; some also include other IFIs); maturities of liabilities to non-residents (26/37 short-term RL only); inclusion of liabilities to residents (19 all maturities; 10 short-term only; 8 not included in RL); central government liabilities (not included; 2 include derivatives); financial derivatives (18 include in RL); other country specifics

TMU definitions of NIR serve an important program monitoring role

Standardized Statistical Definition: Objective

Objective:

- Gross reserves may not provide a full picture of a country's reserve adequacy
- To the extent that there are identified potential drains on reserves, these need to be considered when assessing the adequacy of reserves to buffer macroeconomic shocks
- A carefully defined NIR definition should take a comprehensive view of any potential drains, thus providing an additional indicator of external vulnerabilities and to guide macroeconomic policy advice

Concept:

- Define NIR as reserve assets minus potential short-term FX drains

Purpose:

- A standardized definition will facilitate cross-country comparison and empirical research
- Provides a starting point for reserve adequacy assessments and program design, but still recognizing the need to consider country specifics and program monitoring needs

Standardized Statistical Definition: Proposal

Net International Reserves (NIR) =
Reserve Assets (RA) minus short-term foreign currency drains (FCD)

Reserve assets (RA) are defined in *BPM6* (paragraph 6.64)*

Short-term foreign currency drains (FCD) are the contractual currency obligations scheduled to come due during 12 months ahead, as defined in the IRFCL Template (section II)

*adjusted for FX financial derivatives included in FCD, to avoid double counting

Standardized Statistical Definition: Key Features

	[indicates difference]
Liabilities to residents and non-residents: deducted from RA	[<i>BPM6</i> RRL]
Central government liabilities: deducted from RA	[ARA; <i>BPM6</i> RRL]
Off-balance sheet items: deducted from RA	[<i>BPM6</i> RRL]
Treatment of IMF loans and credits: Short-term liabilities (principal and accrued interest) and scheduled interest (due within a year) are deducted from RA	[Program NIR]
Maturity of liabilities: short-term on a remaining maturity	[Program NIR]
Valuation of liabilities: the cash-flow value when the flows take place	[<i>BPM6</i> RRL]

Data Considerations

The concepts and data are already covered in *BPM6* and the IRFCL Guidelines.

RA: The introduction of this NIR concept does not entail any new data collection in *BPM7*

FCD: The compilation of the IRFCL Template is a requirement to subscribe to the IMF's Special Data Dissemination Standard (SDDS)

Other Considerations

- The proposed definition would provide a standardized approach to support careful monitoring of the build-up of potential short-term drains on reserves.
- Country-specific considerations remain important
 - in the context of reserve adequacy assessments
 - for program design purposes
- Examples of modifications:
 - For establishing and monitoring Fund-supported programs, all outstanding IMF credit and loans, regardless of maturity, could be deducted from RA
 - In some cases, it may be appropriate to exclude from FCD government deposits and some liabilities to commercial banks.

Questions for Discussion

- 1. Do you agree with the proposed statistical definition of NIR = Reserve Assets (RA) minus short-term foreign-currency drains (FCD)?*
- 2. Do you agree to explain the concept/statistical definition and use of NIR in the BPM7 (in an annex and/or a Box) even though it goes beyond the scope of balance of payments framework?*
- 3. Do you agree to the data collection for the proposed NIR (i.e., to be collected in the IRFCL Template/framework)?*
- 4. Do you have any other suggestions on the concept of NIR proposed in the GN?*

Additional Slides

IMF Note Sample Definition of NIR Performance Criteria

Excerpt from Internal Guidance to Fund Staff

August 1, 2003

The sample definition may therefore need to be modified in the context of specific countries, as appropriate.

"**Net international reserves** of the [name of the central bank] are defined as the difference between reserve assets and reserve liabilities. **Reserve assets** are readily available claims on nonresidents denominated in foreign convertible currencies. They include the [name of the central bank] holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities [specify], deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. **Reserve liabilities** are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the Fund"

Several other issues need to be clarified in each program for completeness. The NIR PC should indicate the program price of gold and other relevant reserve assets and program exchange rates for SDRs and other reserve currencies to be used to value NIR for the PC.