

Balance of Payments Currency Union Expert Group (CUTEG)

Outcome Paper (CUTEG) # 10 (July 23, 2004)

(1) Topic: Definition and Allocation of Reserve Assets in a Currency Union

(2) Issues - see CUTEG Issues Paper #10

(3) Recommendations:

1. The group agreed that claims of the monetary authorities that are denominated in the currency of the currency union should be excluded from reserve assets in both the currency union and national data of the member economies.

2. Reserves reported in a currency union balance of payments should include foreign currency claims on non-CU residents of all the institutional units at both the union and member country level that comprise the CU monetary authorities, providing these assets meet the *BPM5/Reserves* Template test for liquidity and availability for use. Further consideration will be given to instances where reserves at the currency union level may also include assets held by other entities resident in the CU that are under the effective control of the monetary authorities. Where the monetary authorities have no effective control over the foreign assets of such entities, the group agreed that any foreign currency claims the monetary authorities have on CU resident entities should not be regarded as reserve assets at the national or the CU level. Provisionally, the group considered that for national data, reserve assets should not include any assets not included in reserve assets at the currency union level.

3. Institutional units of the monetary authorities at the national level in member countries may hold liquid foreign assets and monetary gold, and (as members of the Fund) SDRs and Reserve Position in the Fund. Provided the foreign currency assets are claims on nonresidents of the CU and are effectively controlled by these institutional units, and otherwise meet the definition of reserve assets, they can be classified as reserve assets in the CU data. However, the institutional setting of the CU may in certain circumstances result in some restrictions to the effective control over these assets by the national institutional units of the CU monetary authority. Fund staff are to consider how the concepts of control and ready availability might be applied in these circumstances.

4. Further, in a centralized system, national branches/offices of the CUCB could be part of the CUCB or separate institutional units of the CU monetary authorities to be treated as resident in the national balance of payments of member countries. It was agreed that BCEAO, BEAC, and ECCB would report back on what they consider to be reserve assets in the national data (see Outcome paper 3), the institutional units that comprise their CU monetary authorities, and which of these should be treated as resident in the balance of payments of their member countries.

5. If the CUCB is treated as separate institutional unit, as provisionally agreed in Outcome paper 3, the recommendation of *BPM5* that reserves held by a CUCB be imputed as reserves held by member countries in the currency union in proportion to the claims that national offices have over the CUCB's collective assets, would be dropped.

6. The outcome of this issue, together with the outcomes on the treatment of financial flows relating to multiterritory enterprises (Issue 5) and banknote issuance and migration (Issues 13/14), could raise the question of the relevance (and feasibility of compilation) of producing all the *BPM5* standard components for the financial account and IIP for member countries of a currency union. The IMF is to prepare an issues paper on the possible options for the next meeting.

(4) Rejected Alternatives:

None

(5) Actions before the next meeting of CUTEG

- When NCBs hold reserve assets of the currency union, Fund staff to consider how the concepts of control and ready availability might be applied to determine whether such assets could be classified as reserve assets in the national data, and possible alternate treatments if the criteria are not met (Fund staff).
- The IMF is to prepare an issues paper on the possible options regarding the relevance producing all the *BPM5* standard components for the financial account and IIP for member countries of a currency union (Fund staff).