

CURRENCY UNION TECHNICAL EXPERT GROUP

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DEFINITION OF ECONOMIC UNIONS

I. Introduction

At the December 2004 meeting in Frankfurt, CUTEG members discussed a draft definition of an economic union (EcUn¹) for statistical purposes. While the definition was agreed in principle, the following conclusions were reached:

While the definition of an EcUn should not include a reference to a common monetary and fiscal policy, it can refer to the existence of cooperation/coordination mechanism in these fields.

Apply the same principles to the concept of residence of an EcUn as used to define residence in a CU.

The table provided by Eurostat offers a good framework to use in the new BOP manual to illustrate the distinction between a CU and an EcUn.

The new BOP manual should make some reference to the importance of proper metadata and documentation on the methodology applied in compiling national contribution to CU and EcUn aggregates.

The new BOP manual should also suggest that the relevant segments of the BOP statement for an EcUn are the current account, the capital account, and direct investment, whereas the other categories are less relevant and meaningful at an EcUn level. It is worth noting that the value for analysis of a 'fully fledged' b.o.p. for an EcUn is limited and may be prone to misinterpretation. Where some users of EcUn statistics may still want to have these data, possibly as a contribution to flow-of-funds data, they should be aware that the b.o.p. aggregate could be the result of divergent financial markets trends in the economies included in the EcUn. In contrast to a CU, an EcUn would lack a common monetary policy and would have limited financial integration. Developments in the BOP financial account or international investment position (with the exception of foreign direct investment) may therefore be hard to interpret.

¹ Following the December 2004 meeting, it was agreed to use the acronym EcUn for Economic Unions.

In light of the above conclusions the following definition of an EcUn is proposed for inclusion in the new BOP Manual.

“For statistical purposes, an Economic Union (EcUn) is a union to which two or more economies belong. EcUns are established by means of a formal intergovernmental legal agreement among sovereign countries/jurisdictions with the intention of fostering greater economic integration. In an economic union some of the elements associated with a national economic territory are shared among the different countries/jurisdictions. These elements include (1) the free movements of goods and services within the EcUn and a common tax regime for imports from non-EcUn countries (free-trade zone); (2) the free movement of capital within the EcUn; (3) the free movement of (individual and legal) persons within the EcUn. Also in an EcUn, specific regional organizations are created to support the functioning of the EcUn under points (1) to (3). Some form of cooperation/coordination in fiscal and monetary policy usually exists within an EcUn.”

Economic Union territory

“An economic union (EcUn) territory consists of the geographical territory of the economies that comprise the EcUn, and the regional organizations that comprise the same or a subset of the same economies and are set up to manage the functioning of the EcUn.”

Data issues

“For the purpose of macroeconomic coordination/cooperation, EcUns formulate specific data requirements including balance of payments statistics, which help assess aspects such as the degree of integration of the EcUn internal market or share of trade with countries outside the EcUn. In these instances, since the EcUn balance of payments data are compiled through the aggregation or consolidation² of national contributions, it is important that the EcUn member countries strictly follow international agreed standards and provide adequate metadata describing their methodology.

² There are two approaches for compiling an EcUn balance of payments. The aggregation approach consists of adding up net national transactions to obtain the EcUn net transactions with economies outside the EcUn (because on a net basis intra-EcUn transactions cancel-out). The consolidated approach consists of aggregating gross transaction of the member economies with partner economies outside the EcUn area. This approach allows for an EcUn’s balance of payments statement to be compiled on a gross (credits and debits) basis. Also, specific statistical techniques might be employed to aggregate national data, such as modelling to deal with asymmetries assessed within intra-EcUn data.

At the EcUn level, the current account, the capital account, and direct investment are relevant for monitoring economic performance of the EcUn. However, as different currencies continue to coexist, and the respective monetary authorities set their monetary policy objectives in terms of developments of monetary variables, interest rates, and exchange rates, the portfolio and other investments categories are usually less meaningful at the EcUn level.”

The table below sets out various factors and indicates how they may affect the need for a balance of payments statement. The table clarifies that the factors specific to compiling a balance of payments statement for an EcUn are a subset of those relevant to a CU.

Table 1 Methodological issues relevant for different types of regional cooperation

Issue	Customs Union	Economic Union	Currency Union	Reference
1 Monetary authority	n.a.	n.a.	X	Par... of the Manual
2 Domestic/foreign status of the common currency	n.a.	n.a.	X	<i>Etc.</i>
3 Allocation of intra-CU claims among the CU's central banks	n.a.	n.a.	X	
4 Reserve assets	n.a.	n.a. ¹	X	
5 Definition of regional cooperation	n.a.	X	X	
6 Residency	n.a.	X	X	
7 Debtor / creditor versus transactor principle	n.a.	X	X	
8 Consignment principle <i>Etc.</i>	X	X	X	

¹ The manual could explain that the Reserve assets of a union other than a CU are the sum total of the national Reserves (without consolidation) and that this total has no specific meaning at the union level.

References

Annotated Outline for the Revision of BPM5, IMF, April 2004 (Chapter 4).

1993 SNA (paras. 14.34).

BPM5 (para 90).

External Debt Statistic (Guide for Compilers and Users) (para 6.12)

CUTEG issue paper # 1: “Definition of Currency Union”,
<http://www.imf.org/external/np/sta/bop/pdf/cuteg1.pdf>

Monetary and Financial Statistics Manual 2000 (paras. 89 – 91; 292).