

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

ISSUES PAPER (CUTEG) # 3

ARCHITECTURE OF A CURRENCY UNION

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Architecture of a currency union

1. At present, two kinds of currency union (hereinafter “CU”) can be identified. In one model (ECCB, BCEAO, BEAC), the CU has a CU central bank (CUCB) owned by the governments of the member countries. The common currency is issued by the CUCB and central bank operations in each country are carried out by branches or agencies of the CUCB. This model can be referred to as a centralized model. In a second model (“Eurosystem”), the CU comprises a CUCB and CU national central banks (NCBs) of the member countries. The CUCB is owned by the CU NCBs, and not by the Governments. The decision on the single monetary and foreign exchange policy are taken by the decision making bodies of the CU CB, which also coordinates the implementation of the decisions which is primarily a responsibility assigned to the CU NCBs. This model can be referred to as a decentralized model. This paper examines possible implications of the two models for the compilation of national BOP statistics.

Current international standards for the statistical treatment of the issue

2. References to a CU can be found in the *1993 SNA*, the *BPM5*, the *Monetary and Financial Statistics Manual (MFSM 2000)*, and the *External Debt Statistics Guide 2003*.

3. At present, the *BPM5* (paragraph 90, mirroring *1993 SNA* 14.34 and 4.164d) describes only one kind of CU: the one where there is a CUCB which acts as a common central bank for the member countries of a CU and maintains national offices in each country (centralized model).

4. In this case the BOP treatment follows 4 principles

- (i) – each national office must be treated as a separate institutional unit from the CUCB;
- (ii) - each national office is a resident unit of the country where it is located;
- (iii) – the financial assets and liabilities of a CUCB be allocated among the national agencies;
- (iv) – this allocation should be made in proportion to the claims they have on the CUCB.

5. The *MFSM 2000* (paragraph 90) considers that the CUCB of the centralized form of CU cannot be considered as a separate entity from the national agencies, as flows and positions are allocated to national agencies. In the *MFSM* the CUCB is clearly a non existent (or transparent) institution. *BPM5* is less clear, implying that the CUCB is an institutional unit, although financial assets and liabilities should be allocated among national offices.

6. The *MFSM 2000* (paragraph 90) also describes another form of CU, in which, in addition to the CUCB, there is a national central bank in each country, and it might therefore be possible to compile accounts for the monetary authorities sub sector of the balance of payments in each member country (decentralized model), although for some items (such as reserve assets and currency), such national allocation among CU member countries might be more problematic, if at all possible (subject to discussion in other issues papers). In this case, the CUCB is clearly considered as a separate non-resident unit vis-à-vis each member state.

7. The *External Debt Guide* (paragraph 2.21) does not distinguish between the two models. It states that the CUCB should be considered as “an international organisation, and thus a non-resident from the perspective of the national central bank (i.e. national office acting as central bank).” The same view is exposed in the *GFSM* (paragraph 2.77). In this case, the CUCB is an existent institution. In addition, the *External Debt Guide* also states that for statistics relating to the economic territory of the whole group of member countries, the CUCB is a resident institutional unit of this territory, while not resident in any single CU member country.

Issues arising from the current treatment of currency unions.

8. In line with the *External Debt Guide*, the *Annotated outline for the revision of the BPM5* (paragraph 4.50 and 4.51), proposes that, from the national perspective, the CUCB should always be considered as a non-resident institutional unit whatever the form of the CU. This proposal is derived from the residence status of international organisations, which are always considered as a non-resident of the economy in which they are located, and also from the general definition of an institutional unit for statistical purpose (legal entity endowed with assets and incurring liabilities on their own behalf and being centre of decision-making: *1993 SNA*, paragraph 2.19). This presupposes that a CUCB is an international organisation.

9. In the case of the decentralized model the treatment of CUCB as a non-resident entity does not pose any real difficulty, as the CU NCBs and CUCB of the CU have their own accounts.

10. Nonetheless, such a treatment raises the issue of the nature of claims and liabilities between the CUCB and the national agency in the centralized model, as all the assets and liabilities of the CUCB would be held outside the member countries and no longer allocated to them (the CUCB would be considered as an independent institutional unit with its own balance sheet).

11. From the point of view of CU member countries, monetary activities carried out by the CUCB would be transactions with non-residents (within the CU aggregate). Should advances of the CUCB to governments be considered as liabilities to a non-resident from the point of view of a member country? Should reserve assets held by the CUCB be excluded from national data? Similar questions apply to the CU banknotes' issuance and currency in circulation (see issues paper 13).

Possible treatments

12. With regard to the centralized model, possible alternative treatments are presented below to record the CUCB transactions with member countries.

13. As a first option, monetary operations of the CUCB with member countries could be recorded in the national BOP/IIP as external flows/stocks.

14. Alternatively, the national agencies could be regarded as the national central bank (NCB) acting on behalf of the CUCB. All transactions of residents of a country with the CUCB would be recorded as transactions with the CUCB's national agency, and therefore not recorded in the balance of payments of the country. However, the national agencies would have net claims and liabilities with the CUCB, and these would be reflected in the BOP/IIP of the country under the item claims and liabilities vis-à-vis the CU.

15. It should be noted, that the two treatments have the same result in terms of the BOP and IIP data of the CU. But the first one generates larger flows and positions, and a more complicated set of intra-CU BOP/IIP. In the second treatment, the recording of flows and positions for the national data would be identical to those for the decentralized model.

Points for discussion

1. *How has the present BPM5 approach worked in practice for the existing CUs?*

2. *Should there be two different approaches to the treatment of the CU CB for the two types of CU or not?*

3. *Should the CUCB always be treated as an institutional unit in its own rights, holding its own assets and liabilities?*

4. *Should the CUCB be classified as a non-resident from the national perspective, but resident of the CU ?*

5. *If the CU CB is to be treated as a separate institutional unit, is it appropriate in a centralized model that monetary activities of residents with national agencies be classified as transactions with non-residents (i.e. vis-à-vis the CUCB)? Or, should claims and liabilities which arise from monetary operations within the CU be held directly by the national agency in each member country, with the national agency having a net claim/liability with the CU CB?*

6. *Are there other types of CU with different architecture we should consider?*

References

BPM5, paras 90

1993 SNA, paras 14.34, 4.164d, and 2.19

Monetary and Financial Statistics Manual 2000, paragraph 90

External Debt Statistics Guide, paragraph 2.21

Government Finance Statistics Manual, paragraph 2.77

Annotated Outline for the Revision of the BPM5, paras 4.50 and 4.51