

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

ISSUES PAPER (CUTEG) # 5

**RESIDENCE IN A CURRENCY UNION
AND RESIDENCE IN A SINGLE ECONOMY**

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Residence in a currency union and residence in a single economy

1. Being a resident of a country member of a currency union necessarily implies being a resident of this currency union. The question is asked as to whether the reverse is true, i.e. does being a resident unit of a currency union imply being a resident unit of at least one member country of the union? In other words, can the existence of a currency union create a residence status additional to the residence status of the component economies of the currency union ?

2. In the first place, this paper discusses the issue of the residence status of a currency union central bank (CUCB) in a currency union. This paper also discusses the case of multi-territory enterprise,¹ for which the centre of economic interest is not clearly established and, in some cases, more closely related to the union as a whole than to any individual country.

Current international standards for the statistical treatment of the issue

3. In the current methodology an institutional unit is a resident when it has a centre of economic interest in the economic territory of the country which compiles its balance of payments. This concept of economic territory has essentially a geographical meaning : “an economic territory is the *relevant geographical area* to which the concept of residence is applied” (*BPM5*, paragraph 58).

a) Treatment of the CUCB pertaining to the currency union.

4. Following this definition of an economic territory, an international organisation is considered as a territorial enclave (*BPM5*, paragraph 88: “The international organisations are treated as extra-territorial entities by the economy which compiles its balance of payments”).

5. Although the CUCB is referred to as a separate entity from the national agency, neither the 1993 *SNA* nor the *BPM5* give specifications about the resident status of the CUCB. However, this issue has no real implication, as the CUCB is treated as a multi-territory corporation, with its assets and liabilities being allocated among the national offices. In the 1993 *SNA* and the *BPM5* the CUCB is virtually a non existent institution.

6. The *Monetary and Financial Statistics Manual (MFSM 2000)*, paragraph 90, makes clearly a distinction between the two forms of currency union (see Issues Paper # 3). In the centralized model, the treatment of the CUCB is the one recommended by the 1993 *SNA* and the *BPM5*, while in the decentralized model the CUCB must be treated as a non resident institution from the point of view of member countries.

¹ In this paper, a multiterritory enterprise is one that operates in more than one territory

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 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.

b) Treatment of multi-territory enterprises in a currency union

8. As there is no specific reference to currency unions in existing methodology, the general recommendations should apply. When there is no significant physical presence in one member country and/or it is difficult to split the activity between countries of operation (case of mobile equipment) the *BPM5* (paragraph 82) recommends that all of the corporation’s transactions may be allocated to the country of registry in proportion to the amounts of financial capital that the countries have contributed or in proportion to their shares in equity of the corporation. Alternatively, the corporation may be treated as a resident of the country where corporation headquarters are located.

Issues arising from the current treatment of currency unions.

a) Issues concerning the CUCB pertaining to the currency union

9. There is some uncertainty about the residency status of the CUCB in a centralized currency union, as the existing methodology proposes two alternative treatments: either as a non-existent institution (*1993 SNA*, *BPM5*, *MFSM 2000*) or as an international organisation non-resident of member countries (*External Debt Guide*).

10. However, there does not appear to be any issue concerning the treatment of the CUCB of the decentralized model, and of any other international organisation pertaining to the currency union, which should be considered as non-resident of the member countries.

b) Issues arising from the treatment of multi-territory enterprise

11. In some cases, in particular for regional economic territory which may decide to set up specific regional regulations, the place of incorporation or registration may not be easily allocated to one specific country. The best example would be the case of the EU multinationals set up following the so-called "European Company Status." The jurisdiction that allows the creation and regulates the entity (the currency union or the relevant economic union) is the entity's predominant centre of interest.

12. An issue arises in particular in the case of holding or financial companies, which are able to restructure their business activities across countries on an ongoing basis. In principle, where such a corporation books its financial transactions through booking centers in different countries, no methodological issues are raised if the residence of the head office and subsidiaries is determined by physical presence not legal domicile. But are there issues

concerning changes in booking activity across countries by enterprises incorporated at the regional level that need to be addressed in the updated *BPM5*?

13. Also, can company legislation be used to establish holding companies that are in effect booking centers that have no clear domicile in a member country i.e., are nonresident in any member country? In other words, can companies be established that have only currency union residence? In such cases, the traditional national residence, as defined in *BPM5*, is vanished by legal and/or institutional constructions set up by the currency union. Should we consider that these corporations are non resident of any member country of the union, but residents of the currency union?

Possible treatments

14. In line with the definition of the *External Debt Guide*, one possible solution would be to consider that the CUCB of a centralized model should be treated as a non resident institution of member countries. The implication for BOP and IIP are discussed in Issues Paper # 3.

15. One advantage of such solution would be to harmonize the treatment of CUCB whatever the form of the currency union. In such a case the residence units of the currency union would be the sum of the resident units of member countries plus the CUCB pertaining to the currency union. The treatment of other regional institutions located in the currency union is discussed in Issues Paper 6.

16. With regard to multi-territory corporations, the question raised is whether in the context of currency union a specific treatment of regional multi-territory enterprises can arise. Is there a case for considering these corporation as regional resident units, only?

Points for discussion

1. *Should the treatment of CUCB recommended in BPM5 be amended? In other words, should the CUCB be always treated as a resident institution of the currency union (and non-resident vis-à-vis member countries), whatever the form of the currency union ?*

2. *When a physical presence in one country cannot be determined for a multi-territory corporation, can the specificity of a currency union justify the creation of a regional resident status that would be distinct from the residence in one single country of the union ?*

3. *Is there a need to address issues arising from changes in booking activity across countries by enterprises incorporated at the regional level?*

References

BPM5, paras 58, 88, 90, 82

1993 SNA, paragraph 14.34

Monetary and Financial Statistics Manual 2000, paragraph 90

External Debt Statistics Guide, paras 2.18, 2.21

Government Finance Statistics Manual, paragraph 2.77

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