

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

ISSUES PAPER (CUTEG) #6

**RESIDENCE AND SECTORIZATION OF REGIONAL INSTITUTIONS IN
OVERLAPPING REGIONAL CURRENCY AND OTHER ECONOMIC
ARRANGEMENTS**

The views expressed in this Paper are those of the author and do not necessarily represent those of the European Central Bank.

Prepared by Jean Galand, European Central Bank

May 2004

CURRENCY UNION TECHNICAL EXPERT GROUP

ISSUES PAPER (CUTEG) 6: RESIDENCE AND SECTORIZATION OF REGIONAL INSTITUTIONS IN OVERLAPPING REGIONAL CURRENCY AND OTHER ECONOMIC ARRANGEMENTS

1. Where a currency union area does not coincide with a wider economic area, some decision making institutions of the whole economic area (non-residents from a country perspective) may be considered as residents of the economic area but not of the currency union area. In addition, some countries that are part of an economic area but do not belong to the relevant currency union may engage in transactions and own assets and liabilities with the regional central bank (for example, within the European System of Central Banks, the central banks of the current thirteen countries that have not adopted the euro). How should such residence and transaction/position issues be accounted for in compiling currency union data ?
2. Similarly, the sectoral classification of certain supranational institutions/organisations may become an issue, when compiling aggregates for an economic/currency union. While they are non-resident from the perspective of the individual Member States or from the perspective of the currency union, in cases where the membership of the economic area to which they belong is wider than that of the currency union, and as such do not need a sectoral classification (limited in *BPM5* to residents), these institutions/organisations become resident from the perspective of the whole economic area and require *de facto* to be allocated to an institutional sector. In the European Union, this is the case, in particular, of the European Investment Bank, currently classified under foreign general government for the purpose of money and banking statistics at euro area level but for which the question has arisen of its classification as a bank.
3. This paper addresses the issues to be clarified in the updated Manual with regard to the treatment of institutions with such a dual status.

I. Current international standards for the statistical treatment of the issues

4. Although these issues are rather specific, their review can only rely on the basic concepts and definitions underpinning balance of payments and international investment position statistics. The following developments may therefore be occasionally redundant with other issues papers in the CUTEG or the BOPTTEG.
5. *BPM5* does not provide specific recommendations on residence with reference to the particular case of economic or monetary unions. The relevant concepts and definitions relating to residence provided in Chapter II and IV refer to the economic territory *of a country*, which is defined as “a geographic territory administered by a government; within this geographic territory, persons, goods, and capital circulate freely.” (paragraph 21).
6. The *Balance of Payments Textbook (BPT)* takes a broader approach by referring to the concept of *an economy* and extending it beyond that of a country: “An economy may also

consist of more than one country – for example, the Economic Union of Belgium and Luxembourg. In addition, it is possible to consider the balance of payments of such regional groups as the European Union (EU) and the balance of payments of each group member.

7. Underpinning the concept of residence is the notion of centre of economic interest of its institutional units (BPM5, paragraphs 22, 58, 63), as in the *System of National Accounts* 1993 (SNA).

8. The paragraph devoted to Regional Central Banks in *BPM5* (paragraph 90) provides guidance from a country's perspective, not from a currency union's perspective.

9. Institutional sectors are essentially covered in appendix II to *BPM5* (paragraphs 512-517), although the General Government sector is already mentioned in detail in Chapter IV "Resident Units of an Economy". There appears to be a slight contradiction between paragraph 88 which states that "International organizations that do not qualify as enterprises form part of foreign general government for balance of payments purposes", which seems to imply a need for classification of foreign counterparts into institutional sectors, and the classification of the standard presentation of the balance of payments which only covers domestic sectors. Paragraph 88 further reads: "Most political, administrative, economic, social, or financial institutions in which the members are governments (or other international organizations with membership consisting of governments) do not qualify as enterprises." The European Investment Bank seems to fall in this category.

II. Concerns/shortcomings of the current state of play

10. From a too literal interpretation of the current definitions, it could be argued that, as e.g. the European Union, the euro area or the West African Economic and Monetary Union are not "administered by a government", they do not form economic territories.

11. The particular status of regional institutions in non-coincident regional currency and other economic arrangements with regard to residence and sectorization is not mentioned in *BPM5* nor in the Text Book, in particular that these institutions are resident only of the broader of the two zones and non-resident vis-à-vis the smaller of the two zones, vis-à-vis individual member states of either of the two zones and vis-à-vis third countries as well. The need for these institutions to report themselves their transactions/positions vis-à-vis non-residents of the broader zone has to be made explicit.

12. The treatment of a regional central bank presented in *BPM5* (paragraph 90), as already mentioned, refers only to the compilation of national balance of payments for the countries that are members of the currency union but not to the compilation of the balance of payments of the whole union. Moreover, it corresponds to a reality that existed at the time *BPM5* was issued, but does not reflect the different type of arrangement that has been implemented in the euro area where a central bank still exists in each member state and not simply a national office of the regional central bank.

13. With regard to sector classification, the criteria leading to the allocation of an institution such as the EIB in general government may need to be reviewed in the light of its

activities: if the euro area were to coincide with the European Union, the EIB would become resident of the currency union. As such, it could be involved as a counterpart in monetary policy operations of the Eurosystem and be subject to minimum reserve requirements, which would warrant its inclusion in the banking sector. Even without the identity between the two areas, this situation could arise following a bilateral agreement between the EIB and the Eurosystem, i.e. the ECB and the national central banks of countries that have adopted the euro.

III. Proposed solutions

14. Updated BPM5 should broaden the scope of the definitions, in particular with regard to the notion of economic territory, to cover currency and other economic arrangements by mentioning from the outset that what is said for a country is generally applicable also in the case of such arrangements and that specific issues linked with such arrangements are treated in a dedicated chapter/appendix.

15. Updated *BPM5* should elaborate on the residence status of regional institutions seen from the various perspectives already mentioned and also clarify that such institutions are not outright international organizations, as they are resident of an economic territory. The implications for the compilation of statistics at the aggregate level, i.e. for the whole area, should be made clear, namely that these institutions should provide data on their transactions/positions vis-à-vis non-residents of the whole area.

16. The treatment of regional central banks should also be reviewed to include a description of existing institutional settings beyond the scope of current paragraph 90 of *BPM5* and to propose a treatment of transactions/positions of/with the regional central bank both from the perspective of the Member States and from that of the currency union as a whole.

17. The sector classification of institutions like the EIB should be elicited clearly in the new chapter devoted to economic and/or monetary unions by reference to its activities. It is possible that the EIB may be a unique case of its own, but it is such an important player that any ambiguity should be lifted.

IV. Points for discussion

1. *Do CUTEK members agree that the scope of the definitions, in particular with regard to the notion of economic territory, should be broadened to cover currency and other economic arrangements? Should this be done via a unique general statement or should this be done by adding the words e.g. “or zone” whenever the word “country” is mentioned?*

2. *Do CUTEK members consider that in order to avoid confusion, updated BPM5 should expand on the residence status of regional institutions seen from the various perspectives mentioned above and also clarify that such institutions are not outright international organizations, as they are resident of an economic territory? Should they agree*

that, however, they are not resident in the country where they are located and, thus, any transactions with residents of the country should be considered as “cross-border” and should consequently give rise to b.o.p. entries in the national balance of payments of such a country?

3. *Do CUTEg members consider that it is necessary to explicitly mention that the b.o.p./i.i.p. of the zone in which these institutions are resident should include these institutions’ own transactions/positions with non-residents of the zone? Or do they feel that this mention is superfluous?*

4. *Do CUTEg members consider that the treatment of regional central banks should be reviewed along the lines suggested above?*

5. *Do CUTEg members consider that the current definitions with respect to sector classification (SNA, BPM5, MFSM) sufficiently covers border line-cases such as the EIB (in particular that looking at its activities should suffice to determine a classification) or that clarification is needed?*

References

System of National Accounts, 1993.

Balance of Payment Manual, fifth edition, (BPM5). IMF, 1993

Balance of Payments Textbook, IMF, 1996

Monetary and Financial Statistics Manual (MFSM), IMF