

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 2

CLARIFICATION OF FOREIGN CURRENCY

Prepared by Antonio Galicia-Escotto, IMF Statistics Department

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BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP

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CLARIFICATION OF FOREIGN CURRENCY

1. Although the fifth edition of the *Balance of Payments Manual (BPM5)* does not provide specific guidance on the treatment of convertible/non-convertible currencies in international reserves, the *Data Template on International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)* mentions that foreign currency assets must be in convertible foreign currencies. Thus, foreign currency assets in nonconvertible currencies should not be included in reserve assets.

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

2. *BPM5* states in paragraph 424 that "... The category of *reserve assets* in this *Manual* comprises monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities) and other claims..." The convertibility of foreign exchange assets is not discussed.

3. The *Guidelines* provides clearer guidance. In paragraph 66 it is stated that "...*the reserve assets must be foreign currency assets,*" and in paragraph 67 goes on to state that "...such assets must be in convertible foreign currencies..." and as a corollary, "...assets redeemable only in nonconvertible foreign currencies cannot be reserve assets." The thinking behind the *Guidelines* is that if a foreign currency is nonconvertible, it is not readily available to meet a balance of payments need.

4. The Articles of Agreement of the International Monetary Fund state in Article XXX Section (f), that "A freely usable currency means a member's currency that the Fund determines (i) is in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets"

II. Issues arising from the current treatment of foreign currency

5. The lack of a definition on convertibility in *BPM5* does not facilitate the correct identification of these type of assets.

6. Convertibility is defined in the *Guidelines* as "freely usable for settlements of international transactions" (paragraph 67). This definition of convertibility is very similar to, but not exactly the same as, the definition of freely usable in Article XXX, Section (f) (i) of the Articles of Agreement. Trading in exchange markets (Section (f) (ii)) is not referred to.

7. Paragraphs 66 and 67 of the *Guidelines* are very clear, and exclude any possibility to make exceptions. However, the text could be clarified as to what is meant by freely usable for settlements of international transactions; does it include holdings of external foreign currencies of neighboring countries that can effectively be converted into any other foreign

currencies but cannot be considered to be widely traded in principal exchange markets? Countries might hold such currencies because their risk exposures are closely related to their neighbors given the composition of trade imports.

III. Possible treatments

8. The new *Manual* could adopt the *Guidelines*' text in paragraphs 66 and 67 including a definition of convertible that covers freely usable for settlements of international transactions. Some further description of what is meant by freely usable for settlements of international transactions could be provided, including a reference to the question of holdings of currencies of neighboring countries that might not be widely traded in principal exchange markets.

9. Also, to support transparency, the IIP could also include, as a memorandum, that is required, item, the presentation of the currency composition of the reserves set out in item IV. 2.(a) of the Data Template, that is showing the split of reserves between currencies in the SDR basket and those not in the SDR basket.

IV. Points for discussion

10. *Is there a need to be even more specific than proposed in paragraphs 8 with regard to defining convertibility?*

11. *Does the group support the proposal in paragraph 9?*

References

BPM5, paragraph 424

Guidelines, paragraphs 66, 67

Annotated Outline, paragraphs 5.56

Articles of Agreement of the International Monetary Fund, page 58