

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

ISSUES PAPER (RESTEG) # 7

TREATMENT OF BANK DEPOSITS IN RESIDENT BANKS

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December 2005

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TREATMENT OF BANK DEPOSITS IN RESIDENT BANKS

1. In the fifth edition of the IMF's *Balance of Payments Manual (BPM5)*, foreign currency bank deposits in resident banks are not considered reserve assets. However, *BPM5* permits the inclusion in reserves of foreign assets to which commercial banks have title but which can only be transacted on in the terms specified by the monetary authorities or only with their express permission. As recording practices differ from country to country, this paper considers that a tightening up and clarification of the wording in *BPM5* is needed.

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

2. Reserve assets are held by monetary authorities and according to *BPM5* this sector "includes the central bank institutional unit (or currency board, monetary agency, etc.) and certain operations that are usually attributed to the central bank but, in some cases are carried out by other government institutions (or, in some instances, by commercial banks)."

3. Consistent with the above, *BPM5* states in paragraph 429 that "... if banks hold legal title to foreign assets but are permitted to deal in such assets only on the terms specified by monetary authorities or only with their express approval, such assets would be considered subject to authorities' direct and effective control." This would permit their inclusion in reserve assets provided the other criteria to be a reserve asset are met. Effectively this means that the scope of the monetary authorities is expanded to include the resident banks in these particular cases. However, if reserves data in such circumstances are only collected from the central bank and other official institutions, then deposits by these official entities in these resident banks are regarded as proxies for the counterpart claims that the commercial banks hold on nonresidents.

4. The *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)* in paragraphs 69 and 107 is explicit in making reference to the residence concept. Consistent with the residence concept in *BPM5*, "external assets" are claims of the monetary authorities on nonresidents. The authorities' claims on residents are not considered reserve assets. Therefore, deposits held in resident banks (including banks headquartered abroad but located in the reporting country) do not constitute external claims on nonresidents and are not considered reserve assets.

5. However, as stated in footnote 20 and in paragraph 107 of the *Guidelines*, foreign currency deposits in resident entities can be included in reserve assets "under certain restrictive circumstances" (paragraph 107). Paragraph 68 sets out these restrictive circumstances, consistent with the interpretation in paragraph 3 above. Paragraph 62 considers that such assets should be reported in Section I.B of the Data Template (other foreign currency assets and not reserve assets) but separate data (and explanations) is

required for transparency purposes in any circumstances that reported reserves include deposits in domestic banks.

II. Issues arising from the current treatment of bank deposits

6. In *BPM5* deposits in resident banks can only be included in reserve assets under certain restrictive circumstances (paragraph 429). *BPM5* could go further in elaborating the specific conditions that need to be met.

7. The *Guidelines* make clear that the authorities' claims on residents are not considered reserve assets, and in paragraph 62 is explicit that they should be classified outside of reserve assets. However, it does not differ from *BPM5* in permitting deposits at resident banks to be included under restrictive circumstances but insists upon transparency.

8. This uncertainty over the specific conditions that need to be met appears from experience to have led some countries to expand the restrictive condition so that bank deposits in resident banks are included in reserve assets whether or not the restrictive conditions are met (see for instance paragraph 108 of the *Guidelines*).

III. Possible treatments

9. First, the new *Manual* should confirm that reserve assets should only include claims on nonresidents. Claims on residents do not raise external liquidity. So, all claims on resident banks would be excluded on the grounds that these assets are claims on residents. This would be a "clean solution" that would not be open to interpretation.

10. Second, claims of resident banks on nonresidents over which the monetary authorities have control but the commercial banks have legal title could be included under restrictive conditions of control that are clearly stated provided the other eligibility criteria for reserve assets are met. In this instance, the resident bank is performing a quasi-agency role. Effectively this would mean that the scope of the monetary authorities would remain as in *BPM5* (see paragraph 2 above).

11. The conditions that would need to be met would be:

- the resident banks can only transact in these claims on nonresidents on the terms specified by monetary authorities or only with their express approval, and
- the authorities have access to these claims on nonresidents on demand to meet a balance of payments financing need, and
- there is a prior law or an otherwise legally binding contractual arrangement confirming this agency role of the resident banks that is actual and definite in intent.

12. Similarly, it could be stated that claims of resident banks on nonresidents where there is no such law or otherwise legally binding contractual arrangement should not be included in reserve assets.

13. If countries include these commercial bank assets in reserves, the data should be collected directly from commercial banks and not by proxy through central bank claims on resident banks. If data are collected as a proxy for the commercial bank holdings on nonresidents, in the balance of payments statistics, the commercial banks' claims on nonresidents should be reduced by a corresponding amount.

14. If claims on nonresidents of resident banks are allowed under these restrictive circumstances, as in the Data Template, these claims should be separately identified.

15. Clear examples might be added in the new *Manual*.

IV. Points for discussion

- *Are the proposals set out in paragraphs 9, 10, and 11 acceptable?*
- *Would the conditions proposed in paragraph 11 provide watertight safeguards that the relevant nonresident claims of banks would be available to the monetary authorities in the case of a balance of payments financing need? Should the quasi-agency role be specified in the law before such assets owned by commercial banks are included in reserve assets?*
- *What are the group's views on paragraphs 12-15?*
- *Are there any other issues that should be taken into account?*

References

BPM5, paragraph 429

Guidelines, paragraphs 62, 68, 69, 107, and 108

Annotated Outline, paragraph 5.54