

**Thirteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington, D.C., October 23–27, 2000**

The Concept of Monthly Balance of Payments Statistics in Germany

**Prepared by Dr. Christina Kruse
Balance of Payments Statistics, Deutsche Bundesbank**

The Concept of Monthly Balance of Payments Statistics in Germany

1. Introduction
2. Reasons for the Monthly Compilation
3. Problematic Aspects

1. Introduction

Monthly Balance of Payments Statistics (BOP) have been compiled in Germany since 1956. The breakdown of the monthly BOP has been continuously expanded since then. The most recent changes in the presentation of the monthly BOP in early 1995 and in January 1999 were due to the implementation of BPM 5. For Germany, a complete BOP is available on a monthly basis including a full geographical breakdown by country.

Monthly and quarterly balance of payments data are fully consistent. They are derived from the same set of (monthly) data. The first monthly data are published six weeks after the end of the reporting period. Revisions to this first release are published together with the first data release for the following month. Revised annual data are published in March or April of the following year. The annual publication includes revisions for the last three years. In case of major conceptual changes, annual revisions are carried out for longer back series, usually back to 1971. This applied, for example, for the implementation of BPM5.

The major source to compile Germany's BOP is an open international transactions reporting system (ITRS). Responsibility for the delivery of the reports lies with the economic entity, bank or non-bank that carries out a transaction with a non-resident and/or the economic entity for which the change in ownership applies. Only for some items, such as securities and travel, do banks report on behalf of their customers. In addition to the ITRS, data are derived from three other principal sources: (1) Merchandise trade are

obtained from the foreign trade statistics compiled by the Federal Statistical Office; (2) the short term items of the other investment account are derived from monthly reports to the central bank on the external positions of banks and non-banks; and (3) reserve assets are derived from the accounts of the central bank. A general reporting exemption threshold of DM 5.000 (euro 2.500) for individual transactions is applied. It is envisaged to raise this threshold as from January 2001 to euro 12.500.

2. Reasons for the Monthly Compilation

Unlike in several other countries, balance of payments statistics have traditionally been seen as a statistics of its own right. This means that balance of payments statistics serve not only as a part of national accounts supplying data for the rest of the world account. Another major use of monthly balance of payments statistics had always been for monetary policy purposes. From the outset of balance of payments data collection and after exchange controls were lifted in Germany in the late 1950ties monthly reporting and compilation were deemed necessary for the surveillance of cross-border transactions. Before European Monetary Union had been established, the German monthly balance of payments used to be a fundamental ingredient into the decision making of the Council of the Bundesbank. In this context, balance of payments developments were analysed in order to assess price risks and other macroeconomic issues. For monetary policy purposes, frequency and timeliness are an essential factor. Since 1999, the responsibility for monetary policy has rested with the European Central Bank (ECB). Monthly balance of payments form similarly part of the ECB's statistical requirements for the euro area. As all other euro area Member States, Germany is required to transmit a national BOP contribution designed to allow the ECB to compile the Monthly Key Items for the euro area. The new environment may challenge the production of *national* balance of payments for monetary policy purposes. However, the monthly frequency has never been disputed in Germany. And, as will be explained below, the monthly frequency also has advantages for other macroeconomic policy purposes as well as for data suppliers (reporting agents).

Besides the need of bop data for monetary policy purposes and in the context of European initiatives, users have frequently been asked for their preferences of balance of payments data. To date, the production of German national and monthly balance of payments has always been seen as essential by the German community of users. This may be explained by the following.

To give some idea on the current German integration in, and vulnerability to, the international economy:

About 30 % of goods and services produced in Germany are sold abroad and about 29% of goods and services purchased in Germany are produced in other countries. End of 1998 about 15% of financial assets German residents held abroad and about 14,5% of German financial liabilities in total were vis-a-vis the rest of the world. This high degree of international integration is the main underlying reason for the detailed interest into cross-border transactions in Germany. Interest should in this context not only be understood in terms of functional breakdowns and a country by country recording but also in terms of timeliness and frequency. But timeliness and frequency are not completely separable aspects.

Monthly frequency allows continuous monitoring of external developments. As mentioned above the first complete set of monthly data are available after six weeks. If external developments start to go wrong in January, you will get a first warning in mid of March. By mid of April, you will know whether this was a single phenomenon or whether the development continued in February. By mid of May you will see already some sort of trend. Monthly frequency gives users and policy makers therefore additional time to analyse and to consider policy measures. It also allows more precise analysis of possible factors determining the observed imbalances since the change in figures can be narrowed to a specific month. Further more, monthly frequency improves the forecasting of national accounts and GDP figures, assumed that the external sector contributes substantially.

Since Germany's quarterly BOP data are the result of 3 sets of monthly data, first quarterly data are available also after 6 weeks after the quarter. Due to the revision policy applied, the first two months component of the quarterly data are already revised figures. Accordingly, first annual figures are available mid of February of the following year. However, the more reliable annual figures are only available in March.

The combination of timely monthly figures with a full regional breakdown meets user needs also with regard to other aspects. For example, if a political crisis emerges in a country or region, it is frequent practice that requests for balance of payments data are made by policy makers to analyse and estimate the potential economic damage to the German economy.

All in all, users and policy makers (other than for monetary policy purposes) are attracted to monthly figures, if they are readily available and provided with detail. From the point of view of data suppliers, the monthly frequency and the reporting of individual **transactions** spares these suppliers the need to store and aggregate figures to a quarterly report. The more that electronic reporting is in place, and the more the reports can be derived from their ledgers, the more important this aspect may become. Discussions with reporting agents prove this and help to explain their reluctance to even apply a threshold. The specifics of the balance of payments methodology (as elsewhere) and in some cases the detailed requirements cause, as far as one can be aware of, far more problems than the monthly reporting (compared to quarterly), i.e. quarterly reporting cannot be seen as a simplification for data suppliers.

3. Problematic Aspects

The main argument put forward against monthly balance of payments has always been a question mark on „quality“, here defined as accuracy. For discussion within the Committee, those problematic aspects which seem to occur regularly in discussions about monthly bop statistics are selected. The following three areas can be distinguished:

- The trade-off between timeliness and accuracy;
- The coverage;
- The problem of timing, i.e. correct allocation to the month;

Trade-off between timeliness and accuracy

The trade-off between timeliness and accuracy goes in principle for all frequencies. It is closely related to the availability of (human) resources. Timely compiled monthly balance of payments are labour intensive. This has also some special effects on organisational structures. The monthly production makes necessary the more or less continuous demand on staff members with key functions. Troubles usually related to finalising a reporting period occur pretty regularly.

In addition, the production of monthly data often does not allow immediate and lengthy debates on methodological and classification problems for many cases. Such discussions need to be restricted to substantial amounts. However, since monthly revisions are regular carried out with the release of the first results of the following month, this should be

acceptable. Obviously, these problems may accumulate in the monthly compilation if completely new developments occur.

The Coverage

Coverage seems also to be a more general problem, not only for monthly recording. Coverage problems, however, may be linked to the collection system in place, which in turn may be designed either for monthly or for lower frequencies. Different collection systems may need different solutions to the lack of coverage. The following aims to give three examples for the German monthly data collection and compilation system.

a) Threshold

As mentioned in the introduction to this paper, for the general ITRS system a threshold is applied. This threshold is in form of an exemption threshold, i.e. all individual transactions below a certain amount are excluded from the reporting obligation. The current threshold of euro 2,500 will be raised to euro 12,500 as from 2001. The threshold aims to avoid the reporting, checking and processing of huge amounts of transactions which do not contribute substantially to the results. The threshold works like a simple but rough form of sampling. However, there are several measures in place which should prevent an overall loss of information. Firstly, items which seem to be particularly sensitive to a threshold are reported without applying the threshold (interest payments for example). Secondly, the threshold would have affect to a large extend to the reporting of private households' transactions. Since transactions of private households are anyway difficult to capture statistically, other (often administrative) sources are used to estimate these figures. Thirdly, there is an estimation procedure applied to complement the non-reported amounts.

b) Settlements vs transactions

In most cases, German residents are obliged to report „transactions“ *not settlements*. Reports only contain settlements when a payment (debit) is carried out by payment order through a domestic bank. In cases, such as cash-pooling, where the payment is not identical with the transaction, reporting agents are obliged to submit an additional form containing information on the underlying transaction and to indicate on the payment order a neutral code. The latter and *all other* transactions have to be reported on a transaction basis with the general reporting form which is submitted directly by the reporting agent to the Deutsche Bundesbank (and not channelled through a bank). Since the mid eighties, the Bundesbank has agreed on special reporting arrangements with a substantial, and progressively increasing, number of large banks and, in particular, non-banks. Transactions of these enterprises are registered per item.

c) Monitoring reporting behaviour

The increasing complexity of international transactions, multinational corporate structures, changes in payment systems as well as in the means of payments and, not least, the book keeping revolution by EDP led to a shift within in the German reporting system towards direct submission of information. For large enterprises the vehicle „payment“ through a domestic bank, initially adequate, no longer sufficed to meet balance of payments needs. As a consequence, and as mentioned above, the Bundesbank started to register the reporting profile of large reporting agents about 15 years ago. In addition, special reporting arrangements are made with large enterprises, including company specific catalogues of reporting requirements. All banks and those non-bank enterprises which report individual transactions above euro 50.000,-- as well as all companies reporting by electronic means are supplied with a company code. At the moment the database covers about 3100 reporting banks and about 30000 registered non-banks. The reporting behaviour of the enterprises can be checked on a monthly basis. All in all, the importance of the settlement based form attached to the payment order via domestic banks has decreased gradually and is set weaken further.

Furthermore, the rapid economic development as well as additional and refined balance of payments requirements, not least by international organisations, also made it increasingly necessary to rely on estimates based on information not derived from the ITRS. This goes particularly for the financial account, but also applies to the current account, notably the items transportation, travel and income, as well as for certain current and capital transfers.

Timing of the Transaction

This lastly described problematic area for monthly recording also appears to be the most difficult one. Almost by definition, monthly recording cannot achieve the same accuracy of timing, i.e. allocation of transactions to the right period, as compilation on a lower frequency. Inevitably, there is one point in time when you have to cut off processing reports in order to allow sufficient time for data input, checking and finally production. One pre-condition for monthly balance of payments is therefore an ongoing process of „educating“ and „chasing“ reporting agents to deliver their statistical reports in time. Increased electronic reporting helps in this respect, but „moral persuasion“ has its limits. The revisions to the previous month's data take account of this.

In addition, and certainly more crucial for the financial account, there are transactions which may very well be settled around the end of the month, but not for debits and credits at the same time and therefore possible not in the same month. Timing problems of this sort are usually reflected in changing signs of errors and omissions. Changing signs of errors and omissions give users at least an indication of a timing problem.

To sum up: Timely monthly balance of payments data are an essential user need for monetary policy purposes. For an open economy, and preferably provided in sufficient detail, timely monthly bop data are also essential for other (macro)economic purposes. Problem areas have been described: monthly bop is labour intensive to avoid a trade-off between accuracy and timeliness, coverage needs to be assured by special measures and it is likely that timing problems occur more often than at a lower frequency. These caveats need permanent and careful consideration and treatment.