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**Coordinated Implementation of the Revised IMF Balance of Payments
Manual and the OECD Benchmark Definition of Foreign Direct Investment
in the European Union**

**Prepared by the
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Coordinated implementation of the revised IMF Balance of Payments Manual and the OECD Benchmark Definition of Foreign Direct Investment in the European Union

For information of the IMF Balance of Payments Committee

Background

The 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BD4) was approved in May 2008 by the OECD Council, and the 6th edition of the IMF Balance of Payments Manual (BPM6) was finalised in December 2008. This note informs about the steps being taken to implement these revised Manuals in the European Union (EU), in coordination with the implementation of the System of National Accounts 2008 (SNA 2008), finalised in early 2009, and related macroeconomic and financial statistics.

The note first recalls the institutional set-up for the compilation of statistics in the EU. Section 2 describes the steps being taken to implement new Manuals in a coordinated manner, and to incorporate the new standards in the EU legal framework. Section 3 provides additional information on the main implementation issues under discussion in the EU.

1. Institutional set-up in the European Union

European statistics are produced by (i) the EU national statistical offices and Eurostat, the European Statistical System (ESS), and by (ii) the EU national central banks and the ECB, the European System of Central Banks (ESCB). The ESS has prime responsibility to compile general economic statistics (GDP, index of consumer prices, business and labour market statistics, etc...) and non-economic statistics. The ESCB is in charge of statistics on monetary and financial institutions, as well as financial markets, and quarterly financial accounts. Responsibility is shared for a few statistics, including balance of payments (b.o.p.) and

international investment position (i.i.p.), as well as European sector accounts. Each EU Member State compiles its own national statistics, as well as contributions to European statistics, e.g. sector accounts or b.o.p./i.i.p. statistics. EU and euro area aggregates are compiled by Eurostat or the ECB. As a result, Eurostat and the ECB are not only supra-national institutions, but also statistics compilers with respect to EU and euro area statistics.

Statistics play a key role in the EU and euro area policies, e.g. Gross National Income is used to calculate contributions by each country to the EU budget, weighted GDP and population data determine the ECB capital key, statistical convergence indicators are important for a decision to enlarge the euro area, and the harmonised index of consumer prices is the core indicator in the ECB definition of price stability. The methodology to compile key macroeconomic and financial statistics and the obligation to provide the related statistics according to a harmonised timetable is laid down in European legal acts, either adopted by the European Parliament and Council, or by the ECB Governing Council. This process allows implementing international statistical standards consistently across the EU Member States, though it also means that some lead time is needed to incorporate changes to this framework.

EU statistics are also highly integrated as suggested by the international statistical standards: e.g. EU and euro area sector accounts incorporate input from a variety of statistics, including national accounts, the balance sheet of the banking sector¹, as well as b.o.p. and i.i.p. statistics². B.o.p. and i.i.p. statistics are also highly integrated with the banking balance sheet through the monetary presentation of the euro area b.o.p.³ This implies that an update of some statistics that would not be coordinated with other statistics would distort the steps taken towards this integration, and the data produced in this framework.

2. Coordinated implementation of BPM6 and BD4 in the European Union

As European statistics align very closely to the international statistical standards, the coordination that has been achieved between the reviews of SNA 1993 and BPM5 has been very welcome in the EU. Given this integration between EU/euro area statistics, and the need to compile consistent EU/euro area b.o.p. and i.i.p. statistics, the EU bodies in charge of these statistics, including the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), the Eurostat Balance of Payments Committee and the ESCB Statistics Committee

¹ Called Monetary Financial Institutions in the EU context.

² This integration has even led to consider the possibility of a harmonised release and revision practice across countries and statistics. It also suggests common principles for seasonal and working day adjustments.

have highlighted a need to coordinate the implementation of BPM6 across the EU, and to link this implementation with that of other macroeconomic and financial statistics. A timetable has been set-up to reach this result by 2014. Moreover, while changes to the collection of data necessary for following the new Manuals may start earlier than 2014 (e.g. to allow the compilation of back data under the new methodologies), the dissemination of EU, euro area and national data under the new Manuals should be consistent for the general public and policy makers⁴: for this reason, the b.o.p. and i.i.p. should be published in BPM5 format until the switch to BPM6 in 2014.

As an exception to this general principle, and given the more limited links between FDI statistics and national accounts, the BD4 is expected to be implemented for FDI statistics, as far as compiled outside the b.o.p./i.i.p. framework, at an earlier stage (the target date⁵ being 2011). Similarly, most EU countries saw no big difficulties in participating in the IMF-led CDIS in 2010: appropriate data collections (and in certain cases some estimates) are expected to allow producing data aligned with the BPM6/BD4 methodology used as a basis in the CDIS.

3. Implementation issues being discussed in the European Union

In order to assess in more detail the main difficulties related to the implementation of the new Manuals, a questionnaire was circulated to the members of the ESCB Working Group on External Statistics (WG-ES) and of the Eurostat BoP Working Group (BoP WG) in summer 2008 on issues related to the implementation timetable (roadmap), the main difficulties expected to be encountered and the need for implementation workshops. Replies were coordinated at national level with national accountants. This allowed setting up a list of main issues raising technical difficulties, for which exchanges of views among EU compilers were deemed desirable in order to share experience and coordinate as much as possible the approaches taken at national level. For example, the list included the modalities of implementation of the directional principle, currently under discussion in the EU, or the issue of group reporting as opposed to a compilation at institutional unit level (in direct investment). The implementation of certain concepts (e.g. Special Purpose Entities, Ultimate

³ See ECB Occasional Paper No 96, September 2008.

⁴ In line with the Eurostat and ECB replies to the IMF survey on the implementation of BPM6.

⁵ See Minutes of the Eurostat Balance of Payments Committee meeting held on 4 February – BP COM 09/08-revised.

Controlling Parents), or the changes in the recording of merchanting of goods, are also being discussed in EU relevant fora.

As a follow-up, work is under way to discuss the main identified difficulties in three workshops that will be organised by Eurostat and the ECB with EU national compilers: a first workshop will be held on 9-10 November 2009 on direct investment. It will be followed by workshops on (i) financial issues and (ii) non-financial items of the b.o.p., to be held in 2010.