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Revisiting Global Asymmetries—Think Globally, Act Bilaterally

Revisiting Global Asymmetries—Think Globally, Act Bilaterally¹

While the work of the IMF Committee on Balance of Payments Statistics (Committee) has contributed to improvements in the quality of balance of payments statistics over time, statistical discrepancies in the balance of payments statistics continue to persist. Considering the continuous changes in the nature of cross-border relationships and changing policy focus, this paper suggests refocusing efforts on monitoring and addressing global discrepancies, including by encouraging countries to work more closely with their main cross-border trade and investment counterparts to reduce bilateral asymmetries.

I. BACKGROUND

1. **In the Godeaux Report of 1992, the *Working Party on the Measurement of International Capital Flows (WPMICF)*²** analyzed the principal sources of global discrepancies in balance of payments statistics, and presented to the IMF Executive Board 12 specific recommendations to address these discrepancies. Upon endorsement of the recommendations by the IMF Executive Board, the Committee was established, as recommended, initially to oversee the implementation of the recommendations of the Godeaux Report.
2. In its 23 years of existence, the Committee has played a key role in the development and implementation of statistical methodology for external sector statistics and guided and supported a number of initiatives that contributed to significant improvements in data availability and consistency. The WPMICF's recommendation that countries collect and exchange foreign assets and liabilities data on a country-by-country basis led to the introduction of the Coordinated Portfolio Investment Survey (CPIS) in 1997, and its adoption as an annual collection beginning with data for 2001. After consulting the Committee, the IMF implemented (beginning with end-June 2013 data), enhancements to the frequency, timeliness, and scope of the CPIS to further increase its usefulness. Developed in the same vein, the Coordinated Direct Investment Survey (CDIS) is a now well-established data collection exercise aimed at improving the quality of direct investment position statistics in the international investment position (IIP) and the availability of these statistics by immediate counterpart economy.
3. The Committee has also provided technical advice on the development and adoption of sound concepts and methodology through its work on updating manuals on external sector statistics, including for the treatment of derivatives, trade in services, remittances, reserves, and external debt statistics. In step with their adoption of the sixth edition of the IMF's

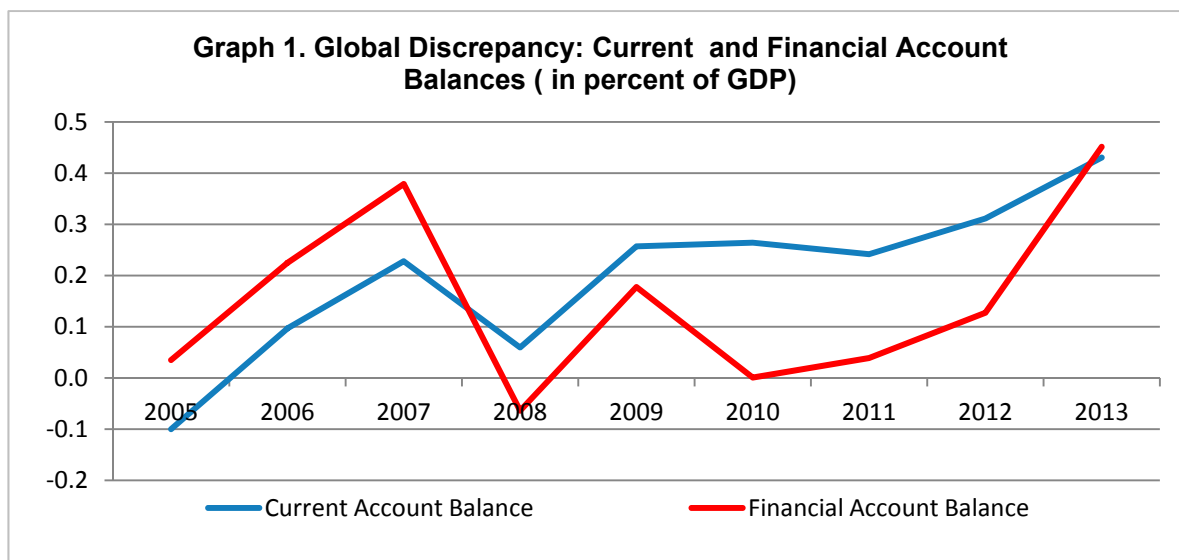
¹ Prepared by Paul Austin, Silvia Matei and Cornelia Hammer, Balance of Payments Division, STA.

² Godeaux Report: Final Report of the Working Party on the Measurement of International Capital Flows, Washington: IMF, 1992.

Balance of Payments and International Investment Position Manual (BPM6),³ a growing number of countries are also attuning data compilation systems to cope with the growing volume and complexities of transactions in globalized production and financial markets. In this regard, the Committee has played a key role, and “remains an institutional bulwark in the international effort to ensure good quality balance of payments data” (Heath, 2015).⁴

II. PERSISTENCE OF GLOBAL DISCREPANCIES

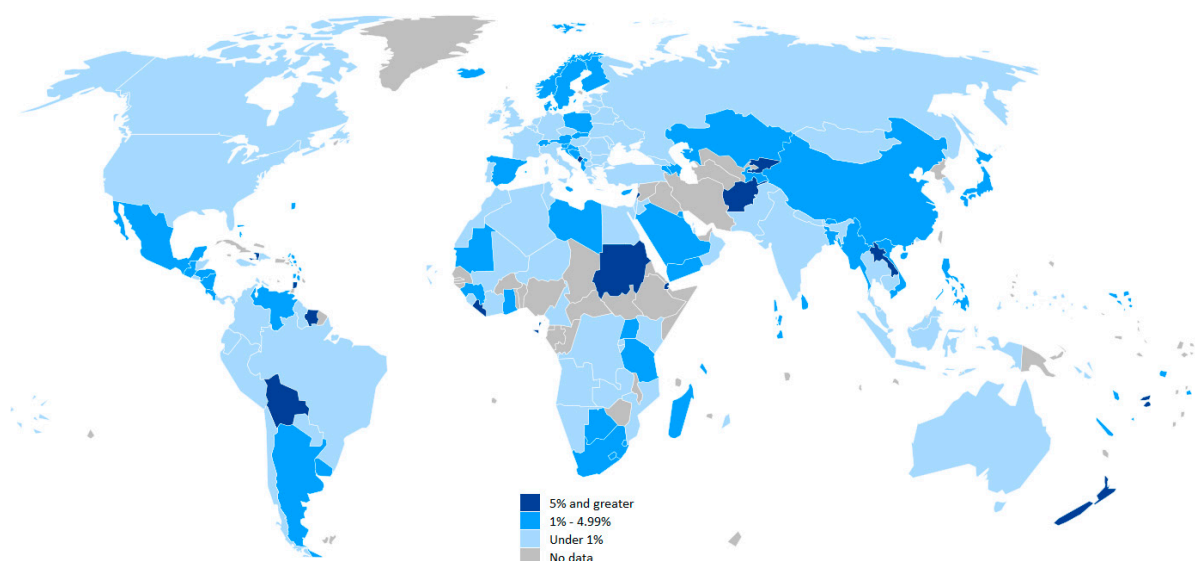
4. **Despite advances in the quality of external sector statistics, discrepancies in the global current, capital, and financial account remain** (see Graph 1) as well as errors and omissions, though at varying levels (Graph 2). The advances made on several fronts in reducing these discrepancies may have been partially offset by emerging challenges due to changes in the economic environment (i.e. the increasing volume and complexity of international economic relations; the changing nature of global production, trade and supply chains; new financial instruments; a policy shift to capital (financial) account liberalization that promotes financial interconnectedness; international migration; and the growing phenomenon of illicit transactions). Going forward, the compilation challenges that these dynamic developments pose may well keep pace with, if not outpace, advances in the areas of statistical concepts and methodology, and in data compilation and dissemination.



³ As of September 2015, 107 countries out of 189 reporting countries have implemented the *BPM6* framework and reported their own *BPM6*-basis estimates for publication in the IMF’s *International Financial Statistics* and the online Balance of Payments Statistics Database

⁴ See “What has Capital Flows Meant for Economic and Financial Statistics,” Robert Heath, IMF Working Paper (WP/15/88).

**Graph 2: Errors and Omissions 2013
(as percentage of gross current account transactions)**



5. The Committee has been presenting, in its *Annual Reports*⁵, the asymmetries in the balance of payments statistics at a global level. Due to the increasing volume and complexity of international transactions, and considering their high level of aggregation and the variability of imbalances from year to year, these tables have limited analytical value for investigating the causes of asymmetries and offering solutions to reduce them. Better tools to monitor trends in data quality are needed—and many of these tools are already available to compilers.

6. This paper posits that a more effective approach to tackling global asymmetries should start at the national level, by investigating the reasons behind large errors and omissions in the balance of payments data and undertaking analyses of bilateral discrepancies with main cross-border trade and investment partners (i.e., act bilaterally).

III. A MORE PROMISING APPROACH: BILATERAL DATA COMPARISONS

Addressing Current Account Discrepancies

7. **The current account continues to be the largest contributor to discrepancies in the global balance of payments** averaging 62.6 percent during 2007-2013, compared to the financial account (37.1 percent), and the capital account (0.3 percent). Further, the largest share of current account discrepancies relates to trade in goods, with a continued trend of positive goods balance (exports exceeding imports).

⁵ The latest available tables are published in the [IMF Committee on Balance of Payments Statistics Annual Report 2014](#).

8. Over the years, the Committee has been apprised of several bilateral and regional initiatives aimed at addressing asymmetries in foreign trade statistics. Bilateral reconciliation exercises are conducted regularly, for example reconciliations between the U.S. and Canada (current account reconciliations) and between the U.S. and China (trade in goods and services statistics). According to balance of payments metadata provided to STA, at least 50 countries have undertaken at some point—or are regularly undertaking—bilateral reconciliations or comparisons either as part of their data cross-checking exercises during bilateral meetings with their main partner countries, or through participation in various multinational exercises⁶ for reducing asymmetries. As part of its technical assistance delivery, the IMF encourages countries (particularly in cases where customs-based trade data are weak) to engage in bilateral comparisons, including through the use of the IMF’s Direction of Trade Statistics (DOTS).

9. As more counterparty data are becoming available for other components of the current account, countries are also expanding their bilateral reconciliation exercises beyond trade in goods to include other current account components such as services, and primary and secondary incomes (including remittances). Data reconciliations between income flows and investment positions are also facilitating improved internal consistency of the international accounts. Regional initiatives, such as the European FDI Network (see Box 1), are also placing the financial account on the radar of bilateral asymmetries.

⁶ The multinational exercises are promoted by regional and/or international organizations including the IMF, Eurostat, ECB, BIS, ASEAN, West Monetary Agency (WAMA), and Paris Club and through projects such as MEDSTAT.

Box 1. The European FDI Network and EU Quality Reports

The FDI Network was launched in June 2009, under the auspices of Eurostat and the ECB, to reduce asymmetries and increase the internal consistency of the EU and euro area balance of payments statistics. After having overcome confidentiality issues, bilateral data comparisons extend to transactions at a micro-level.¹

Eurostat drafts annual balance of payments quality assessment reports² for member countries to assess whether the overall quality of the balance of payments data transmitted to Eurostat by member states is in line with the EU requirements—taking into consideration that the existence of large asymmetries could seriously hamper the confidence in the quality of the consolidated EU data. Mirror data with other European member states are presented and verified, covering, inter alia, direct investment, services and remittances data.

Eurostat uses two approaches for reducing inter-EU asymmetries: top-down and bottom-up. The top-down approach transforms original figures through a statistical model implemented by Eurostat and the ECB. The transformation effectively eliminates the discrepancies and restores consistency in the aggregated inter-EU data. The bottom-up approach is based on in-depth bilateral comparisons by the compilers in counterpart countries—covering data collection methods, definitions, and micro-data, followed by negotiating the “best” bilateral figures to be published.

¹ See: European Networking Exercises: The FDI Network: Report by ECB/Eurostat (BOPCOM-14/20) (<http://www.imf.org/external/pubs/ft/bop/2014/27.htm>).

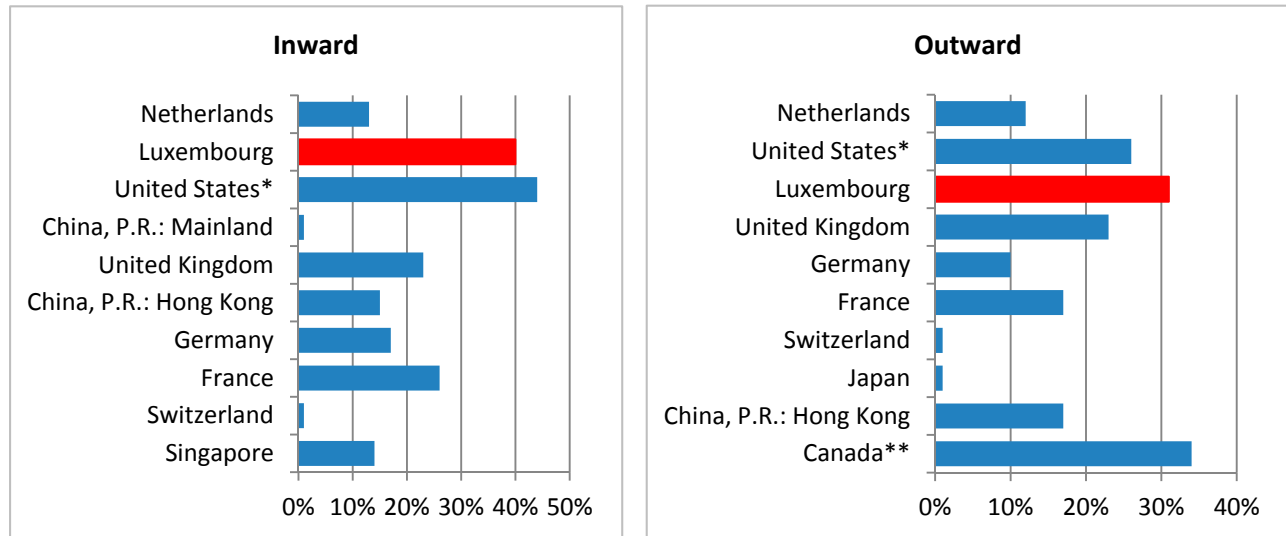
² See, for instance: <http://www.statistiques.public.lu/en/methodology/methodes/economy-finances/bop/bop/index.html>.

The IMF’s Bilateral Data Initiatives

10. **The launch of the CPIS and CDIS has offered a useful tool to trace and address bilateral asymmetries in portfolio and direct investment data.** In many cases, the implementation of these surveys has led national statistical agencies to rebuild or at least significantly expand their compilation systems, resulting in improvements to their external sector statistics. For economies that do not participate in the CDIS, mirror data as reported by their counterparts provide insights on their inward and outward positions; for economies that participate in the CDIS, mirror data can be used to cross check and verify their own data and may also prove useful in highlighting data gaps. A number of countries have noted in their metadata that the IMF’s CDIS and CPIS are very useful tools in reducing bilateral asymmetries.

11. **These positions data have also shed light not only on bilateral asymmetries, but also on inconsistencies in the national data** (see Graph 3). Such inconsistencies are rooted in a number of factors, including (i) differences in methodology (e.g., different valuation methods for unlisted equity); (ii) different vintages (revisions made to IIP, but not to CDIS); and (iii) lack of uniformity in coverage (SPEs).

Graph 3. Top 10 CDIS Reporters: Asymmetries Between CDIS and IIP⁷ (2013)



*Different valuation methods

**Different revision timing

■ CDIS > IIP

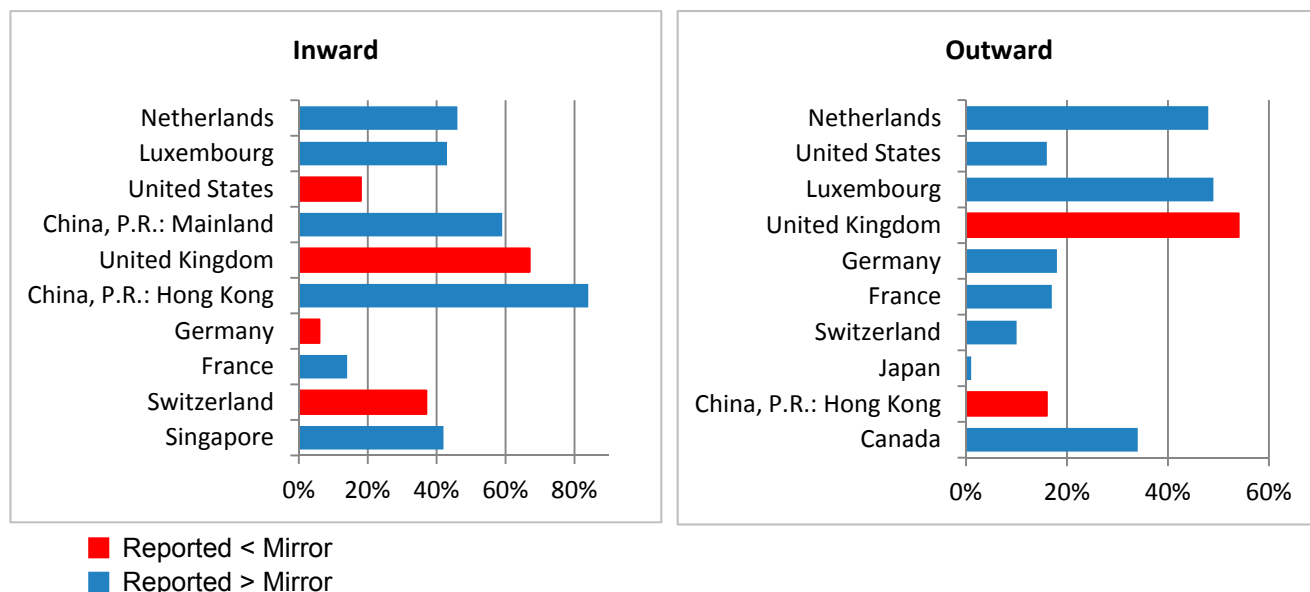
■ CDIS < IIP

CDIS – Bilateral Asymmetries Project

12. To bring to the attention of CDIS participants large bilateral asymmetries between their CDIS-reported data and data reported by their main counterparts, STA initiated a project on bilateral asymmetries in 2014. Under the project, STA informs participating countries of their largest bilateral asymmetries and encourages them to work together to identify possible reasons for these asymmetries, take responsibility for resolving them, and to assure the robustness of data. Graph 4 illustrates the existing asymmetries between reported and mirror data for 2013 for top ten CDIS reporters (by size of positions).

⁷ IIP data are readjusted to the directional principle to allow comparison with the CDIS data.

Graph 4. Top 10 CDIS Reporters: Asymmetries Between Reported and Mirror Data (2013)



Asymmetries in CPIS

13. As more countries compile and disseminate IIP data, efforts to enhance the quality of their CPIS data and to promote consistency with related IIP components have intensified. This is evidenced in the relatively small asymmetries between reported CPIS and IIP assets data (see Table 1). On the other hand, asymmetries between the derived CPIS liabilities and the relevant IIP data are significant, primarily due to the incomplete geographical coverage of the CPIS. This is an area where further efforts, including through the second phase of the G-20 Data Gaps Initiative, could result in improved derived CPIS liabilities data as additional G-20 economies and economies with significant financial centers come on board.

Table 1. Top 10 CPIS Reporters: Asymmetries Between Reported CPIS and the IIP (end-2014)

Portfolio Investment Assets, end-2014	
Top 10 CPIS Reporters	Asymmetry CPIS-IIP
United States	-0.2%
United Kingdom	0.0%
Luxembourg	0.0%
Japan	-1.6%
Germany	0.0%
France	0.0%
Ireland	-0.1%
Netherlands	0.0%
Switzerland	0.0%
Canada	0.9%

Keeping Data Quality on the Radar

14. The quality of a country's external sector statistics is determined by a number of factors, and the IMF's Data Quality Assessment Framework (DQAF) provides a useful tool for self assessment using defined dimensions of data quality. Further, the compilation of IIP data as part of the framework for the international accounts has fostered data reconciliation between flows and positions, and provided for more accurate and consistent financial account data.⁸

IV. CONCLUSIONS AND WAY FORWARD

15. The tables on asymmetries in the balance of payments statistics presented in the *Annual Reports* of the Committee have limited analytical value as a tool for investigating the causes and offering solutions to reduce the asymmetries.

16. An important lesson learned from the ongoing initiatives is that data quality could be significantly enhanced through robust bilateral comparisons, including (i) in-depth analysis of countries' concepts, definitions, data collection, and compilation methods; (ii) actions and decisions to harmonize countries' concepts and methodologies; and (iii) bilateral consultations that lead to concrete actions for addressing the data gaps and enhancing cross-country data consistency. The availability of publicly accessible data hubs with bilateral data, such as the IMF's CPIS, the CDIS, and the DOTS, and the BIS' international banking statistics is conducive to this process.

17. To further foster these initiatives, the Committee could support a more bilateral-focused approach to addressing statistical discrepancies by (i) encouraging countries to engage in bilateral comparisons; (ii) monitoring progress, e.g., by encouraging countries to disseminate annual reports on the progress made through bilateral comparisons; and (iii) in promoting initiatives aimed at advancing knowledge exchange on country/regional experiences.

Questions for the Committee:

1. *What are the Committee member's views on ways of improving data inconsistencies and reducing discrepancies? Does the Committee agree with supporting a more bilateral approach?*
2. *Should the Committee members investigate ways in which it can encourage countries to engage in bilateral comparisons?*

⁸ The significant improvements in external debt statistics has also contributed.