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For discussion

Treatment of Centralized Currency Unions in Macroeconomic Statistics

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The treatment of reserve assets (RA) in the balance of payments and international investment position (IIP) in centralized currency unions (CUs), as well as the interpretation of some concepts have raised many questions recently. Appendix 3 of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) elaborates on the treatment of different regional arrangements in external sector statistics (ESS). With reference to CUs, the Appendix identifies two types of CUs—centralized and decentralized—and provides guidance on application of core balance of payments concepts. However, in the light of recent questions and issues raised the current recommendations from BPM6, Appendix 3 may need to be revisited. The paper identifies the main issues of concern related to centralized CUs which require further discussion and guidance, including the attribution of RA to member economies in a centralized CU and particularly when each member of the CU has full access to the common pool of RA to meet their needs, irrespective of their contribution (solidarity principle).

A. Introduction/Background

- 1. The BPM6, Appendix 3 covers regional arrangements such as CUs and their treatment in external sector statistics (ESS).** Specifically, the Appendix discusses the treatment of national agencies (NAs) and RA in centralized and decentralized CUs. However, the treatment of RA and other transactions and positions in the balance of payments and IIP of centralized CUs [Central African Economic and Monetary Community (CEMAC), Eastern Caribbean Economic and Currency Union (ECCU), and West African Economic and Monetary Union (WAEMU)] has recently raised many questions.
- 2. The BPM6 identifies two kinds of CUs—centralized and decentralized.** In the centralized model, the CU has a CU central bank (CUCB) owned by the governments of the member economies with the common currency issued by the CUCB and central bank operations in each economy carried out by branches or agencies of the CUCB. This model is observed in Africa and the Caribbean. In the decentralized model, the CU comprises a CUCB and CU national central banks (CUNCBs) of the member economies with the CUCB being owned by the CUNCBs. The monetary policy decisions are taken by the decision-making body of the CUCB, which also coordinates the implementation of the decisions, a primary responsibility of the CUNCBs. This model is the type developed by the euro area in the 1990s (BPM6, paragraphs A3.13 and A3.14). Annex 1 summarizes the characteristics of different CUs.
- 3. Drawing from BPM6 Appendix 3, in centralized CUs assets and liabilities of resident units of a member economy and the monetary authority should be attributed**

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to the national agencies² (NAs). Transactions among resident units settled through accounts with the CUCB are resident-resident transactions and should not be included in the balance of payments of the member economy (*BPM6*, paragraph A3.33). Along these lines, it should be clarified whether CUCB’s domestic assets (e.g., credit to the government and domestic banks) and liabilities (e.g., banknotes denominated in domestic currency and domestic banks’ deposits) should also be attributed to the NAs of the CUCB.

4. **The concept of imputed RA/net contribution to the pool of RA is needed for assessing the external position of individual members of the CU.** Because economic and fiscal policies are often still largely defined at the national level, there is the need to compile national balance of payments and IIP statements for the member economies in a CU. In addition, despite sharing a common currency, these economies can still have their own individual balance of payments issues—for instance, due to inadequate reserves, capital flight, or a sudden disinvestment or stop of financing by external investors. Suitable estimates are key to determine the balance of payments need at the economy level for surveillance and external sector assessment purposes. The reserve position in the IMF, allocation and holdings of SDRs, and borrowing from the IMF belong by design to individual countries and consequently are accounted for at the national level by individual member economies of a CU. Consequently, in theory a member-economy approach should also be applied to RA and other balance of payments and IIP components.

5. **In practice, compilers have faced challenges in the residency attribution of assets and liabilities of NAs and the allocation of RA among members in centralized CUs.**

Questions on three main features of the current guidance have been raised:

- a. The apportioning of pooled RA of a centralized CU to member economies for their recording in national ESS. This is especially relevant in the case of CUs with a strong adherence to the solidarity principle, whereby any individual member has access to the full pool of union-level reserves (the case of WAEMU);
- b. The attribution of assets and liabilities of the monetary authority vis-à-vis resident units (e.g., lending to governments and banks, deposits of banks, etc.) by/with either the NAs or the CUCB;
- c. The consideration of when the CUCB is “acting on its own account” (discussed in paragraph A3.35 of *BPM6*), which is key to determine which CUCB transactions can be deemed domestic and which are cross-border.

² The term NAs refers in this outline to national directorates, branches, and notional units acting as national monetary authorities in a centralized CU.

B. Current Guidance on the Treatment of Centralized CUs in ESS

6. **According to the *BPM6*, in a centralized CU in each member economy the monetary authority functions are deemed to be carried out by a national (resident) monetary authority, the NA.**³ This treatment is not only for statistical purposes but also for portraying the complete macroeconomic framework of an economy for analytical purposes. Transactions among the NA and resident units of the same member economy settled through accounts at the CUCB are not to be recorded in the national balance of payments but attributed to the NA as domestic transactions and positions (*BPM6*, paragraph A3.33). These transactions are recorded / imputed in the balance sheet of the NA, and are thus treated as transactions and positions between residents.⁴ The net claim of the NA on the CUCB (i.e., the difference between assets and liabilities) represents its share of the RA of the CUCB (see Annex 2⁵) and negative net claims on the CUCB are treated as loan liabilities (see *BPM6*, paragraph A3.37⁶).

C. Challenges in Practical Application of Existing Guidance for Centralized CU

Imputed RA and Solidarity Principle

7. **The RA of the member economies of CEMAC, ECCU, and WAEMU are pooled.**⁷ In both the WAEMU and the CEMAC, member states pool their foreign assets in a common foreign exchange reserve fund and there is no national ownership of a share of the common pool. While both regional central banks may compute imputed reserves for their member economies, having a negative position does not prevent an economy from accessing the regional reserve pool for valid balance of payments transactions. In the case of the ECCU, there is national imputed /estimated ownership of member economies' share in the common pool of RA.

8. **WAEMU's RA are a common pool available to all member economies.** Each member can obtain foreign exchange from the pool of RA at a fixed parity with the Euro for legitimate external transactions, provided they have corresponding local currency holdings. The common pool of reserves may be used without limit to meet the needs expressed by a

³ *BPM6*, paragraph A3.40 states: "The methodology recommended for a centralized CU is de facto applied in the decentralized system where, in each economy, monetary activities with residents of the CU are carried out by national central banks having their own assets and liabilities."

⁴ CUCB lending to the government and banks (if any) through the NA is then imputed in the NA's balance sheet and is therefore treated as resident to resident transaction / position.

⁵ Basic formula for calculating imputed RA: Net claims on CUCB=Reserve Money (RM)-Net Domestic Assets (NDA) for each economy.

⁶ This paragraph (at least) may be revisited or clarified, since according to *BPM6* paragraph 5.52 interbank positions should be recorded as deposits.

⁷ CEMAC, ECCU, WAEMU corresponding regional central banks are, respectively, the Banque des Etats de l'Afrique Centrale (BEAC), the Eastern Caribbean Central Bank (ECCB), and the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

member economy. The current guidance in the *BPM6*, Appendix 3 on the approach to recording the transactions and positions in ESS of member economies of a centralized CUs reflects the practice at the time of drafting the *BPM6*, where a monetary survey was established in each member economy (*BPM6*, paragraph A3.38). Although the monetary surveys are still well established in each WAEMU member (with separate identification of NA claims on nonresidents as net foreign assets), the strong adherence to the solidarity principle in WAEMU challenges the current guidance on imputing RA. Actually, only the BCEAO is legally entitled to hold reserves, so another question is whether foreign exchange holdings/transactions of WAEMU NAs should be recorded as reserve assets (see *BPM6*, paragraph A3.37) in the balance of payments/IIP or whether they should be recorded under other investment.

9. **The solidarity principle implies that each member of the CU has full access to the common pool of RA to meet their needs, irrespective of their contributions to the pool.** The BCEAO stopped publishing imputed reserves data for each WAEMU member economy implying that each member can have access, if needed, to the whole pool and, as such, the allocation of RA to each member economy is not relevant. Because the existing guidance does not fit for addressing the issues arising from the adherence to the solidarity principle in WAEMU, at the time of Senegal's subscription to the IMF's Special data Dissemination Standard (SDDS), the decision was to report in Senegal's International Reserves and Foreign Currency Liquidity Data Template (IRFCL)—a required prerequisite for the subscription—the value of the common pool of reserve assets with a footnote clarifying that they correspond to the whole reserves of the CU. Nevertheless, the standardized report forms in monetary and financial statistics (MFS) continue to separately identify NAs' claims on nonresidents and RA data are disseminated in the IIP and balance of payments separately for each member (up to available 2017 data). While in general the NA claims on nonresidents match their RA in the IIP, it needs to be clarified the extent to which MFS, if deemed adequate, could be used for apportioning the foreign assets attributed to NAs for balance of payments and IIP purposes. As mentioned above, whether such assets should be recorded under official reserves or under the other investment account should also be clarified.

10. **In the CEMAC, economies and regional authorities estimate and report imputed RA.** The solidarity principle in this case does not prevent allocating the pool of RA to the member economies. In accordance with Article 26 of the *Convention Governing the Monetary Union*, BEAC centralizes in foreign exchange reserves the external assets of the member economies denominated in foreign currencies. Article 28 of the aforementioned *Convention* obliges the BEAC to have in its books the RA share of each member economy. Further, when a country has negative imputed RA in CEMAC, BEAC has the power to seek policy adjustment for that country. The allocation of RA among member economies is based on accounting data (transactions are traced) and some indicators. Also, guidance should consider that, in recent years, a share of CEMAC's foreign currency assets may have been held overseas by some member economies and not included in the reserves pool.

11. **Within the above context, there is a need to clarify whether imputed RA to NAs correspond to the commonly accepted definition and meaning of RA.** Also, the research should confirm the extent to which (i) the *BPM6* guidance on attribution of RA based on the net claims to the CUCB is applied in CEMAC and ECCU, and (ii) data are available to implement the guidance.

12. **The treatment of intra-union balances and their impact on RA requires further guidance.** Particularly, in the euro area the balances of intra-union country transactions channeled through CUCB do not affect the national RA calculation (for instance TARGET2 accounts are treated as external assets classified as other investment, currency and deposits);⁸ while in centralized CUs, balances of intra-union country transactions channeled through the CUCB (e.g., the liaison accounts⁹ between members) are deemed to impact the net claims on CUCB of the members, affecting their share in the RA (*BPM6*, paragraph A3.37). Further elaboration of the example included in *BPM6*, Appendix 3, would help clarify such transactions and their impact on imputed RA.

Ambiguous Interpretation of the Role of NAs—Their Autonomy with Reference to CUCB Transactions on “Own Account” and “Who Bears the Risk”

13. **NAs in centralized CUs are deemed to be resident institutional units in the economies where they are located.** Typically, the CUCB maintains national offices in each member economy which act as a central bank for that economy and, according to macroeconomic statistics standards, they are considered as resident of the economy where they are located, and as institutional units separated from the CUCB (similar to the treatment of a foreign bank branch). Where no NAs are established, for statistical purposes a notional institutional unit is imputed (*BPM6*, paragraph A3.32). Institutional units are recognized in the cases of branches and notional resident units even though they may not fully satisfy all the main attributes of an institutional unit (*BPM6*, paragraph 4.13).

14. **CUCB “own account” transactions should be clarified in the context of the role of NAs and other national institutional units.** The *BPM6* guidance indicates that transactions of residents with the CUCB, where the CUCB is acting on its own account, should be recorded in the national balance of payments of the member economy according to the nature of the transaction. However, *BPM6* Appendix 3 only presents one example: debt securities issued by the CUCB and subscribed by residents of an economy of the CU are recorded as portfolio investment (assets) in the national balance of payments (*BPM6*,

⁸ According to paragraph A3.46 of the *BPM6*, claims and liabilities among CUNCBs and the CUCB (including those arising from settlement and clearing arrangements) are to be recorded under other investment, currency and deposits or loans (depending on the nature of the claim) in the balance of payments and IIP of member economies. Note that this paragraph is under the heading “Intra-CUNCBs and CUCB balances” with no specific reference that such treatment applies exclusively to decentralized CU.

⁹ Liaison accounts record all financial transactions among BEAC’s branches and between the branches and the BEAC headquarters. Entries in the liaison accounts associated with cross country transactions within the CEMAC region are foreign claims/liabilities that can be used for balance of payment purposes.

paragraph A3.35). Additional examples would help understand the scope of CUCB own account transactions and how they are recorded in national balance of payments and IIP statistics. For instance, clarification is needed on treatment of the support provided by a CUCB on its “own account” to a member economy whether to a sovereign (where permitted) or banks

15. **The lack of an independent (and not imputed) balance sheet of the NA has posed questions on the residency attribution of NAs transactions with resident units.** Yet, the interpretation of “own account” in some cases, could be contrary to *BPM6* guidance. For instance, some users may conclude that liquidity operations of the CUCB to a member take place exclusively through the (nonresident) CUCB—because NAs may only help channel funding from the CUCB to the members and act merely as conduits as they do not have an independent balance sheet. Thus, *BPM6* should further elaborate on the role of NAs vis-à-vis the CUCB in a centralized CU.

16. **Residence attribution of transactions of NAs is not based on whether the ultimate loss bearing falls on the CUCB or on the NA.** “Who bears the ultimate risk” is not the criteria used in macroeconomics statistics for deciding the residency of branches and quasi-corporations’ assets and liabilities. However, some users have raised questions given that the NAs do not have an independent balance sheet and their loss bearing falls on the CU at large. Thus, guidance and further elaboration is warranted. Further, the guidance on transactions and positions of NAs, CUCB, and other institutional units of member economies needs to be consistent across macroeconomic statistics.

User Needs

17. **The balance of payments, IIP, IRFCL, and quota data require individual member economy data on RA and/or central bank net foreign assets.** Data for all relevant balance of payments and IIP components are essential to have the complete accounts for individual economies. For instance, for IMF quota calculations, data on individual economy’s RA are required. Such data are available for CEMAC and ECCU member economies; however, for WAEMU economies, in the absence of such data, official foreign exchange reserves of the CU are distributed to individual economies based on agreed historical ratios. Furthermore, in the context of Senegal’s subscription to SDDS a decision was taken that allows the country to report total foreign exchange reserves of the CU (WAEMU) in section I of the IRFCL, given their strong adherence to the solidarity principle, with an appropriate explanation in the metadata.

18. **A proper measure of imputed RA is still analytically useful for individual members of a centralized CU.** Imputed reserves for individual economies are useful indicators of potential drain on the pool of RA of the CU and could serve as a tool for checking consistency of flows and positions in individual economies, as well as individual economy macro-frameworks against the regional macro-framework. This is particularly

important when quantifying the contribution of individual economies to the pool of RA for assessing external risk and vulnerabilities.

Timeline for Revisiting the Guidance on Treatment of Centralized CUs

19. **Against this background, additional guidance on the subject seems to be warranted.** Considering the importance of ESS indicators of individual CU countries for Fund's surveillance and the significant number of instances when additional guidance was requested or when existing *BPM6* concepts were misinterpreted, it seems legitimate to develop the guidance for discussion at the 2020 Committee meeting. Some instances may be resolved with clarifications to the current guidelines, while others may require an amendment to Appendix 3 in the *BPM6*. For the latter, the agreed changes may need to be postponed until the next revision of the statistical manuals (*BPM6* and *SNA 2008*) be launched.

Questions for the Committee:

- *Does the Committee agree that the BPM6 guidance on centralized CU should be revisited?*
- *Does the Committee agree that the guidance should address the interpretation and apportioning of RA of individual member economies of centralized CU, particularly in those CUs where the solidarity principle applies?*
- *Does the Committee agree that the guidance should further elaborate on the attribution of assets and liabilities vis-à-vis resident units to the CUCB or to the NAs in centralized CU?*
- *Does the Committee agree that the guidance should further elaborate on CUCB transactions on its "own account" in centralized CU?*
- *Are there additional issues that the Committee consider may need to be revisited?*

Annex 1. Characteristics of Different Currency Unions

	CEMAC	ECCU	EMU	WAEMU
Composition	The CEMAC comprises six Central African countries: Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and the Republic of Congo.	The ECCU comprises eight Caribbean islands: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines, but Anguilla and Montserrat are not IMF members since they are dependent territories of the United Kingdom.	The EMU comprises 19 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.	The WAEMU comprises eight West African countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
Exchange Rate Regime	The "CFA franc" has its own fixed exchange rate vis-a-vis the Euro and a separate acronym, with the Central African CFA franc to stand for "Coopération financière en Afrique centrale" (Financial Cooperation in Central Africa). Prior to the euro's introduction, the CFA was pegged to the French franc.	The de jure regime for the ECCU is a currency board. In practice, backing of the currency and demand liabilities has been close (but not equal) to 100 percent, hence the operation of a quasi-currency board.	The Eurosystem issues a reserve currency, the euro, which floats freely.	The "CFA franc" of the WAEMU has its own fixed independent exchange rate vis-a-vis the Euro and a separate acronym, with the West African CFA franc to stand for " <i>Communauté Financière d'Afrique</i> " (Financial Community of Africa). Prior to the euro's introduction, the CFA franc was pegged to the French franc.
Trade integration	Customs union in place but full implementation has been delayed.	Customs union in place for most sectors of the economy, but tariffs are not fully harmonized.	EU common market.	Customs union (UEMOA) established between 1996 and 2000 but issues remain (Goretti and Weisfeld, IMF WP 08/68)

	CEMAC	ECCU	EMU	WAEMU
Type of Currency Union¹⁰	“Centralized”, characterized by having only one regional central bank—no national central banks exist. The BEAC (the central bank of the CEMAC) is headquartered in Cameroon, and each has national directorates in each member country. National branches are not autonomous and serve essentially as local quarters for the regional central bank. they help implement regional policies and provide analysis of local economic conditions to support regional policy-making.	“Centralized”, characterized by having only one regional central bank—no national central banks exist. In the ECCU, the regional central bank (ECCB) is headquartered in Saint Kitts but maintains agency offices in the other seven islands.	“De-centralized”. In a decentralized currency union, central banks at national level coexist with the European Central Bank (ECB), which is headquartered in Germany. National central banks maintain their individual balance sheets and are integral part of the Eurosystem. The Eurosystem (ECB and NCBs) is governed by the decision-making bodies of the ECB.	“Centralized”, characterized by having only one regional central bank—no national central banks exist. The BCEAO (the central bank of the WAEMU is headquartered in Senegal, and each has national directorates in each member country. National branches are not autonomous and serve essentially as local quarters for the regional central bank. they help implement regional policies and provide analysis of local economic conditions to support regional policymaking.
Reserve pooling	French Treasury acts as guarantor.	ECCB maintains a peg to the U.S. dollar through a quasi-currency board arrangement. ECCU members pool foreign exchange to a common reserve pool. ECCB must maintain their contribution to pooled official	Reserves are partially transferred to ECB, part remain on national central bank’s books. Upon creation of the ECB, member national banks contributed to the ECB reserves [in relation to the ECB capital	to ECB, part remain on national central bank’s books. Upon creation of the ECB, member national banks contributed to the ECB reserves [in relation to the ECB capital key]. Given the euro’s status as a reserve

¹⁰ As defined in the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*, Appendix 3.

	CEMAC	ECCU	EMU	WAEMU
		reserves at no less than 60 percent of its demand liabilities.	key]. Given the euro's status as a reserve currency and its fully floating nature, reserve coverage and/or reserve buildup are not considered explicit objectives.	currency and its fully floating nature, reserve coverage and/or reserve buildup are not considered explicit objectives French Treasury acts as guarantor.
Repatriation requirements	Yes, there are repatriation requirements.	In the ECCU, these vary country by country.	No repatriation requirements	Yes, there are repatriation requirements.
Access by the government to direct monetary financing or stability support	Advances exist. Limits on holdings of T-bills by the central bank.	In the ECCU, only through temporary advances to the government (at 5 percent of revenue over the preceding three years). Limits on holdings of T-bills by the central bank.	No. The ECB is prohibited from providing monetary financing to sovereigns. The ESM and the EFSM can provide support under conditionality.	No. Limits on holdings of T-bills by the central bank.
Emergency liquidity provision to banks	Not part of standard toolkit.	The ECCB has the power to provide liquidity assistance to financial institutions in the event that one of its members is in danger of disruption.	ELA assistance is provided by NCBs, under the control of the ECB Governing Council.	Not part of standard toolkit.
Decision Making Bodies of the Central Bank	The CEMAC Monetary Policy Committee is presided by the governor of the central bank and includes 14 other members, two for each member country (one of which is the Director on the national directorate of	ECCB Monetary Council includes the finance ministers of all eight member-governments.	Independent central bank, with decision making done by the Executive Board of the ECB and the Governing Council of the ECB. These two bodies govern the Eurosystem.	The Conference of Heads of States and Governments sets the overall directions of monetary, exchange rate, and financial sector policies but also has the final responsibility for their implementation. From an operational viewpoint, the BCEAO defines and implements monetary and exchange rate policies while the

	CEMAC	ECCU	EMU	WAEMU
	the BEAC) and two for France.			responsibility for the stability of the financial system is settled between regional (BCEAO/Banking Commission) and national authorities (Ministry of Finance). The Monetary Policy Committee is composed of the BCEAO Governor, Deputy Governors, representatives of each member states, one member in charge of CFAF convertibility, and other members nominated by the Council of Ministers. convertibility, and other members nominated by the Council of Ministers.

Source: IMF Policy Paper “*Program Design in Currency Unions*”, March 2018, at <https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/03/15/pp031618-program-design-in-currency-unions>.

Annex 2. The Balance Sheet of the National Agency

Illustrative Balance Sheet of a NA in a Centralized CU

Assets	Liabilities
Net claim on CUCB (RA))	Banknotes
Domestic assets (residents) ¹¹	
Net claims on Government	
Claims on the Government	
(-) Government deposits	
Claims on banks	Bank deposits (residents)

Source: *BPM6*, Appendix 3

¹¹ Examples of balance sheets of NA in Appendix 3 include simply domestic assets (with no further breakdown).