IMF Establishes Special Data Dissemination Standard

O n April 22, the Interim Committee (of the Board of Governors of the International Monetary System) welcomed the establishment of the special data dissemination standard (SDDS), a standard for members having or seeking access to international financial markets to which they may subscribe on a voluntary basis. Early indications are that a significant number of countries, including a mix of industrial and emerging-market countries, intend to subscribe to the standard.

In April 1995, the Interim Committee, in the wake of the Mexican financial crisis, called on the IMF's Executive Board to establish standards to guide members in providing economic and financial data to the public. The Group of Seven industrial countries, which met shortly thereafter in Halifax, made a similar request. A year later, in April 1996, the IMF's Managing Director reported to the Interim Committee that the SDDS had been established and that invitations to subscribe had been sent to members. He expressed his expectation that the SDDS would, by enhancing access to timely and comprehensive statistics, contribute both to the formulation of sound macroeconomic policies and to the improved functioning of financial markets.

The SDDS was developed following extensive consultations between IMF staff and official statistical agencies, users of data—especially in financial markets—and other international organizations. It prescribes a set of good practices across four dimensions of the dissemination of economic and financial data (see box on p.4):

- the practice of disseminating a range of data needed to monitor macroeconomic performance and policy, with periodicity and timeliness that balances the needs of data users and the capabilities of producers;

- practices that encourage ready and equal access to the data;

- practices that help ensure the objectivity and professionalism—that is, the integrity—of data compilation and dissemination; and

- practices that, while not themselves guaranteeing the quality of the statistics, assist users in assessing quality for their own purposes.

The data categories to be disseminated under the SDDS are for the real, fiscal, financial, and external sectors of the economy. *Continued on page 3*

Genesis of the initiative

Contents

Selected Topics

For the external sector, the SDDS prescribes (a) quarterly data on major components of the balance of payments (see box on page 5), with encouragement to follow the classification of the fourth or the fifth edition of the *Balance of Payments Statistics Manual (Manual)*; (b) monthly data on international reserves and merchandise trade; and (c) daily data on exchange rates. The SDDS expects that subscribers will work toward data on the international investment position (IIP), as recommended in the fifth edition of the *Manual*. With respect to timeliness, balance of payments data should be disseminated within one quarter of the end of the reference quarter, international reserves within one week of the end of the reference month, trade data within eight weeks of the end of the reference month, and exchange rate data within short periods. As IIP data become available, the SDDS prescribes dissemination within two quarters of the end of the reference year.

Major features of the standard

The SDDS provides flexibility designed to take into account differences in the way national statistical systems are organized and to recognize differences in economic structures. For example, the standard does not prescribe a single, uniform practice intended to discourage undue political influence on the data, but rather prescribes transparency about a data producer's practices, whatever they may be. Also, in the list of data categories to be disseminated, several are labeled "as relevant" so that a member that does not produce and disseminate that category would still be considered to be observing the standard, if all other requirements are met.

To make known, especially to financial market participants, which countries subscribe to the SDDS and observe the SDDS, the IMF will maintain an electronic bulletin board—the Dissemination Standard Bulletin Board—on the Internet. Members subscribing to the SDDS will provide information to the IMF about their data and dissemination practices, and that information—the so-called metadata—will be posted on the bulletin board. The IMF bulletin board will not include the data, but the IMF is exploring ways to link electronically from the bulletin board to country data sites so that metadata and actual country data can be accessed together more readily. The bulletin board is expected to be open to the public at the end of August 1996.

SDDS to be reviewed in light of experience over time

A transition period will extend through the end of 1998 in recognition of the fact that most subscribers will need to make some changes in their dissemination practices. During this period, countries may subscribe to the SDDS while they make the adjustments necessary to observe the standard fully. The transition period will also allow the IMF, in cooperation with members, to continue elaborating more fully certain operational aspects, and to undertake reviews of the standard in the light of experience over time.

Countries that subscribe to the SDDS will be expected to observe it. Procedures to deal with the unlikely cases of nonobservance, including arrangements to draw on the advice of a panel of independent statistical experts, will be further elaborated during the transition period.

To assist countries in deciding whether to subscribe to the SDDS and in preparing metadata and other materials in support of their subscription, the IMF staff has prepared a document entitled *Guide to the Data Dissemination Standards (Guide)*. The *Guide* explains the four dimensions and provides examples drawn

Summary of Special Data Dissemination Standard (SDDS)

- **Coverage, periodicity, and timeliness**

  The SDDS focuses on basic data that are most important in shedding light on economic performance and policy in the real, fiscal, financial, and external sectors. It specifies the minimum coverage necessary, but countries are encouraged to disseminate other relevant data.

- **Access by the public**

  Ready and equal access is a principal requirement for the public, including market participants. To support such access, the SDDS prescribes advance dissemination of release calendars and simultaneous release to all interested parties.

- **Integrity**

  To assist users in assessing integrity, the SDDS prescribes: dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information; identification of internal government access to data before release; identification of ministerial commentary on the occasion of statistical releases; and provision of information about revision and advance notice of major changes in methodology.

- **Quality**

  Although quality is difficult to judge, monitorable proxies, designed to focus on information the user needs to judge quality, can be useful. To assist users in assessing quality, the SDDS prescribes: dissemination of documentation on methodology and sources used in preparing statistics and dissemination of component detail, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness.

The Data for the External Sector: Coverage, Periodicity, and Timeliness

Coverage			Periodicity	Timeliness
Prescribed		Encouraged categories and/or components		
Category	Components			
External sector				
Balance of payments *	Goods and services, net income flows, net current transfers, selected capital (or capital and financial) account items (including reserves)	Foreign direct investment and portfolio investment	Q	Q
International reserves #	Gross official reserves (gold, foreign exchange, SDRs, and Fund position) denominated in U.S. dollars	Reserve-related liabilities, as relevant	M (W encouraged)	W
Merchandise trade #	Exports and imports	Major commodity breakdowns with longer time lapse	M	8W (4-6W encouraged)
International investment position			A (Q encouraged)	2Q (Q encouraged)
Exchange rates	Spot rates and 3- and 6-month forward market rates, as relevant		D	1/
Addendum: Population		Key distributions, e.g., by age and sex	A	. . .

Periodicity and timeliness: Daily ("D"); weekly or with lapse of no more than one week ("W") after the reference date or close of the reference week; monthly or with lapse of no more than one month ("M"); quarterly or with lapse of no more than one quarter ("Q"); annual ("A").

* Comprehensive statistical frameworks

Tracking categories

1/ Given that data are widely available from private sources, dissemination of official producers may be less time-sensitive. Although dissemination by recorded telephone messages or fax services is encouraged, dissemination of these data can be made part of other (preferably high-frequency) dissemination products.

from country practices. A series of regional seminar/workshops, being planned for late June and early July in Europe, Asia, and Latin America, will be organized around the Guide to give potential subscribers further assistance.

The establishment of the SDDS and the opening of subscription marked the end of one phase of work begun following the April 1995 Interim Committee's request. Work is also under way within the Fund on a *general* data dissemination standard. The general standard represents a goal for improved statistics for all IMF members; it will be achieved through the delivery of IMF technical assistance, training in statistical methodologies, and regular staff work. Further work on the general data dissemination standard will now assume a high priority. Work will concentrate on elaborating the dimension concerned with data coverage, periodicity, and timeliness as the three other dimensions of the special and general standards are expected to be the same for both standards. The Interim Committee asked the Executive Board to establish the general standard before the end of 1996. □

* This article is an adaptation and updating of an article by the same title, prepared by the IMF Statistics and Policy Development and Review Departments, that appeared in the May 20, 1996 issue of IMF Survey.

> The Special Data Dissemination Standard is available
> to the public from the IMF's Public
> Affairs Division
> (tel.202-623-7682/fax 202-623-6278
> and on the Internet at
> gopher://gopher.imf.org.

Work of the IMF Committee on Balance of Payments Statistics Yielding Noteworthy Results

The IMF Committee on Balance of Payments Statistics held its eighth meeting in Washington, D.C. on April 29-30, 1996. Among the projects reviewed at the meeting were those of the Task Force on Coordinated Portfolio Investment Survey and of the Informal Group on the Measurement of Financial Derivatives. The task force and the informal group, both established under the auspices of the Fund, have completed their respective mandates. (See also article on pp.11-15 on the Committee's effort to enhance the international banking statistics for use in balance of payments compilation.) At the meeting, the Committee also discussed its interest in the plans of the United Nations to introduce new guidelines for collecting international merchandise trade statistics. Highlights of the Committee's activities are reported below.

Task Force on Coordinated Portfolio Investment Survey

In a major effort to improve the external portfolio investment statistics of countries, the Committee set up an international task force in October 1994 to develop guidelines to assist countries to conduct a coordinated survey on portfolio investment. The purpose of the survey is to enable participating countries to collect comprehensive data on their holdings of foreign securities (equities and long-term bonds and notes), an area of statistics in which traditional measurements have been rendered inadequate by the liberalization of world financial markets and financial innovations. The results of the survey, when available, will also allow participating countries to exchange data bilaterally with other countries, enabling them to improve their estimates of nonresident holdings of their portfolio investment liabilities as well as of associated financial flows and investment income. The reference date for which the survey of participating countries' holdings of foreign securities is to be conducted will be the last day of December 1997. At present, 37 countries have indicated a willingness to participate in the survey.

Countries surveying international portfolio investment

Cross-border trading of securities has increased dramatically since the early 1980s. Global net capital flows into foreign bonds and stocks, for example, were estimated to total about $1.7 trillion in the five years ending 1994 (as opposed to an estimated total of about $250 billion for the five-year period of 1980-1984). Reliable statistics on these investment activities are essential for measuring the rapidly growing international capital flows.

The survey will be carried out in early 1998 for reference year 1997

The task force was composed of balance of payments compilers from 12 major industrial countries, the IMF, the Bank for International Settlements (BIS), the European Monetary Institute (EMI), and the Organization for Economic Cooperation and Development (OECD). Among its mandates was to produce, by early 1996, a guide to assist countries to conduct the survey.

*Task force
completed Survey
Guide providing
practical advice on
undertaking the
coordinated survey*

The task force met on four occasions: Basle in October 1994, Washington, D.C. in March 1995 and April 1996, and Rome in October 1995. At the most recent Committee meeting, the task force presented its *Survey Guide on the Coordinated Portfolio Investment Survey (Survey Guide)*. In addition to practical advice on how to prepare, organize, and conduct the survey, the *Survey Guide* extensively addresses: (1) ways to identify survey units and to develop a register of potential respondents; (2) methods to estimate the value of securities at market prices; and (3) means to identify and resolve "confidentiality" issues. The *Survey Guide* also includes sample survey forms. It contains "edit checks" for use in verifying the validity of the data collected. The Fund will disseminate the *Survey Guide,* which will be published in English, French, and Spanish, later this year. Implementation of the guidelines by compilers of the participating countries is crucial to the success of the coordinated survey.

In its final report the task force made a number of recommendations to the Fund and to the countries participating in the survey. The recommendations for the Fund include: (1) writing to all participating countries by the end of May 1996 to inquire when and how they plan to conduct their surveys; (2) organizing a meeting of national compilers in the third quarter of 1996 to provide a forum for discussion of practical and methodological issues arising from implementation of the survey; and (3) establishing an electronic bulletin board to facilitate interface among compilers as they undertake the coordinated survey.

The task force's recommendations to participating countries include the following: (1) compilers should complete the project in 1999; (2) at the conclusion of the survey, compilers should provide documentation to the Fund on how they conducted their survey, its scope, its coverage, and the quality of the data compiled; and (3) compilers should provide the survey results to the Fund, which will act as the central clearinghouse for the provision of data to participating, as well as nonparticipating countries.

The task force further recommends that, following the completion of the coordinated survey, the Fund evaluate from a technical viewpoint the lessons learned, with a view to identifying ways to improve statistics on international portfolio investment.

It is expected that the survey results will have a considerable audience. The EMI, for example, will be interested in the results insofar as they contribute to its efforts to develop consolidated statistics on the international investment position of the European Union, which is regarded as a high priority for the Institute. (The reader may also refer to pages 8-13 of the December 1995 issue of the IMF Balance of Payments Statistics Newsletter for additional information on the 1997 Coordinated Portfolio Investment Survey.)

Informal Group on the Measurement of Financial Derivatives

The Fund this year established an informal group of experts to advise on issues related to the implementation of international guidelines on the treatment of financial derivatives, with the objective of amplifying and clarifying the methodologies, as needed. This group was convened in view of: (1) experiences of coun-

tries in applying the standards for financial derivatives set forth in the fifth edition of the Balance of Payments Manual (*BPM5*) and the 1993 System of National Accounts (*1993 SNA*); and (2) continuing innovations in financial markets. The expert group encompassed not only balance of payments compilers but also national accountants[1] and financial statisticians. In addition to the Committee, the informal group's findings and recommendations will also be presented to the IMF Expert Group on Monetary and Financial Statistics, which will meet in November 1996, in conjunction with the finalization of the Fund's Manual on Monetary and Financial Statistics.

The informal group met on April 22-24, 1996, at which time the group made a number of observations, including:

- Countries generally collect or intend to collect data on financial derivatives in accordance with the *BPM5* and the *1993 SNA* guidelines. Countries of the European Union also adhere to the recommendations set forth in the European System of Accounts (ESA).

- Cooperation among national statisticians collecting data on financial derivatives should be encouraged, whether the data they collect are for the compilation of balance of payments, banking or financial statistics, or national accounts. Through this approach, experiences can be shared, concepts harmonized, and the burden on reporting entities minimized in a field where there is considerable complexity.

- Regulatory rules and accounting standards requiring that financial derivatives be "marked to market" have assisted national compilers to collect position data on financial derivatives.

- Further clarification would be desirable on what financial derivatives include, either by enumerating instruments that are generally regarded as derivative products or by developing a definition of financial derivatives to guide their inclusion in the different classifications of financial assets. Reference can be made to the work currently undertaken by the Statistical Office of the European Union (EUROSTAT) and the EMI, as well as that of the U.S. Financial Accounting Standards Board.[2]

- Further study should be made on the treatment of the net settlement payments related to derivative instruments that give rise to property income flows (such as interest rate swaps and forward rate agreements (FRAs). The *BPM5* and the *1993 SNA* recommend that these payments be included in the current account.[3] Some compilers, however, favor treating the payments as financial transactions that should be recorded in the financial account. Their rationale is that there is a close substitutability between these instruments and other financial derivatives (for example, interest rate futures) that are included in the financial account. These compilers also believe that the "financial account approach," as opposed to the "current account approach," would mitigate the effect of the anomalous presentation of recording interest payments/receipts without accounting for any changes in assets or liabilities related to the derivative transactions, the related difficulties in

reconciling position and transaction data, and the escalation in the magnitude and the associated volatility of recorded investment income data.

- The *BPM5* and the *1993 SNA* guidelines are flexible enough to cover the different practices in national markets concerning margin payments. However, the inclusion of margin payments in deposits should be reviewed after the EMI study on margin arrangements in Europe is completed.

The Fund will discuss the informal group's findings and recommendations with the EUROSTAT and the OECD, as well as communicate them to the Inter-Secretariat Working Group on the National Accounts (ISWGNA).

UN Guidelines on International Merchandise Trade Statistics

Committee members are following with interest new guidelines being drawn up by the United Nations Statistics Division entitled, *International Merchandise Trade Statistics*. The guidelines, which have been sent by the UN to all countries for comment, could be issued as soon as early next year.

One of the aims of the new guidelines is to introduce greater consistency in UN concepts and definitions of recording merchandise trade with those found in the *BPM5* and the *1993 SNA*. To the extent that this can be accomplished, it will reduce the need for compilers to keep separate sets of statistics to record countries' merchandise trade and their trade in goods as required for balance of payments compilation. Fund personnel have been attending the expert group meetings on the new guidelines being held under the UN auspices.☐

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[1] Including a representative from an accounting standards organization.

[2] The Group concluded that in principle derivatives could exist within any financial asset category. It also discussed at length whether all financial derivatives are financial assets, as proposed by some members, but remained split and did not come to a consensus to recommend any changes in methodology.

[3] The settlements are treated as interest because they are specifically used by end-users to adjust net borrowing costs, a treatment that is also recognized in the International Accounting Standards.

Countries Can Improve Balance of Payments Estimates With the Aid of International Banking Statistics

The international banking statistics of the Bank for International Settlements (BIS) can be used in certain cases to help improve and to provide cross checks for national source data on international financial flows and stocks of the nonbank sector with nonresident banks. Studies by two IMF Working Parties that investigated sources of discrepancies in global balance of payments statistics made extensive use of these data.[1] They found by comparing the BIS statistics and national balance of payments data that cross-border financial transactions of the nonbank sector (and the associated streams of investment income) were substantially understated in countries' balance of payments statistics. They recommended that national balance of payments compilers should systematically compare their national data on these stocks and flows and, where appropriate, use the BIS data in their balance of payments compilation. In addition to improving national balance of payments statements, use of the BIS data may reduce discrepancies in global aggregations of balance of payments.

The BIS international banking statistics were not developed for balance of payments compilation purposes and their use for balance of payments statistics was not well known by national compilers. For these reasons, the BIS, the IMF, and the IMF Committee on Balance of Payments Statistics have been working to document the coverage and methodology of these data and to explain their use for balance of payments compilation. Also, the BIS has been refining these statistics to enhance their use for balance of payments purposes. This article provides a brief description of these data, the use of the data that has been made so far for balance of payments purposes, and the recent developments to more closely align the data with the standard components of the financial account of the fifth edition of the *Balance of Payments Manual* (*BPM5*).

IMF recommending compilers to make greater use of BIS statistics in balance of payments compilation

The BIS International Banking Statistics

The BIS maintains two statistical systems to monitor and analyze international banking activities—one on international assets and liabilities of banks based on the residency of the reporting entity (the Quarterly Reporting System) and another on the worldwide international assets of banks consolidated on a nationality basis (the Semi-Annual Reporting System). The data from the Quarterly Reporting System are in conformity with the residency criteria used in balance of payments accounting. The BIS defines international banking activity as comprising those transactions that involve changes in banks' balance-sheet assets and liabilities vis-à-vis nonresidents (in any currency or units of account—including the ECU or the SDR). Transactions in similar assets and liabilities vis-à-vis residents in foreign currencies or units of account are also included in this definition, but published separately.

The quarterly statistics are derived from reports filed by deposit-taking banks and similar institutions in countries that make up the BIS reporting area.

These statistics are aggregated and reported to the BIS by the national authorities, usually central banks. The reporting area has grown over time and now comprises 18 industrial countries and six offshore centers. Because virtually all countries with important international banking activities participate in the Quarterly Reporting System, the global coverage is considered to be comprehensive.

The BIS Quarterly Reporting System
List of Reporting Countries and Centers

Industrial Reporting Countries

1.	Austria	10.	Japan
2.	Belgium	11.	Luxembourg
3.	Canada	12.	Netherlands
4.	Denmark	13.	Norway
5.	Finland	14.	Spain
6.	France	15.	Sweden
7.	Germany	16.	Switzerland
8.	Ireland	17.	United Kingdom
9.	Italy	18.	United States

Other Banking Centers

19. Bahamas

20. Bahrain

21. Cayman Islands

22. Hong Kong

23. Netherlands Antilles

24. Singapore

The reports that each of the reporting countries files with the BIS contain an extensive array of detail on banks' international assets and liabilities; data are reported on total and nonbank positions by country and currency. The reported assets would include deposits and balances placed with nonresident banks

(including banks' own related offices) and loans and advances to foreign bank and nonbank customers. Similarly, on the liability side, they take account of deposits and loans received from nonresident banks (including banks own related offices) and from nonresident nonbanks. Reporting on other types of banking activity is not always uniform. For example (with the major exception of the United States), holdings and banks' own issues of international securities (bonds and notes, as well as in many cases short-term instruments and equities) are included in reporting banks' international assets and liabilities. Direct investment participation in the majority of cases also is included in reporting banks' international assets and liabilities.

By aggregating the reported data on a country-by-country basis, the BIS is able to produce a statistical series on the external positions of banks vis-à-vis the bank and nonbank sectors in some 200 individual countries. The availability of currency detail also allows the BIS to estimate valuation-adjusted changes in these "derived" positions, which can serve as proxies of the capital flows underlying the change in positions between two periods.

The derived data hold considerable potential to improve the coverage and accuracy of national balance of payments and international investment position statistics. Specifically, the derived data on banks' external claims on the nonbank sector of a country can be viewed by the country as a measure of the liabilities of its nonbank sector to banks abroad (i.e., loans). Similarly, the derived data on banks' external liabilities to the nonbank sector can be viewed as a reflection of the claims of the country's nonbank sector on banks abroad (i.e., deposits). Derived data are also available for interbank positions on a geographical basis, but national compilers are generally satisfied with their national data on external assets and liabilities of domestic banks. In the case of the nonbank sector, however, coverage of financial positions (and transactions) is frequently incomplete, especially as regards to the household sector.

Use of the BIS Data for Balance of Payments Purposes

The use of the BIS data to improve countries' balance of payments data is gaining importance. For example, in the early 1990s in order to improve data coverage, the United States began to substitute the BIS data of selected countries for U.S. source data on U.S. nonbank claims on foreign banks. The result of these substitutions on the U.S. balance of payments and international investment position accounts was dramatic; the stock of U.S. nonbank financial claims on nonresidents as of year-end 1993 was increased, in total, by over $200 billion. A similar increase was recorded in U.S. nonbank liabilities to unaffiliated nonresidents, where, because of classification differences, fewer data substitutions could be effected. The new stock data, when used to derive estimates of transactions (flows), revealed that U.S. capital flows and related investment income receipts and payments were substantially higher than those reflected in figures previously published.

A number of other industrial countries also use selective elements of the BIS statistics as inputs to their balance of payments. Still others find the figures useful as a check on their domestic data. For example, a survey recently conducted by the BIS on the 18 industrial countries reporting to it showed the following:

BIS statistics could enhance countries'data on balance of payments and international investment position

one-third of the countries used the BIS banking statistics in balance of payments compilation or for checking purposes, another five countries made use of the data for various analytical purposes, and many of the others indicated that they wished to use the BIS data in the future depending on the quality of the data. Almost all of the countries indicated that they would like to receive the banking data excluding securities on a regular basis.

Nonetheless, the BIS international banking statistics were not developed for balance of payments compilation purposes. Differences in the two statistical frameworks, as well as in data collection methods among countries, can impede their use in balance of payments compilation.

Recent Developments

Within the scope of the international banking statistics, data on the banks' loans to and deposits of nonbanks are of particular interest to balance of payments compilers, because of difficulties in achieving comprehensive coverage in this area. The inclusion of securities indistinguishably in the reported assets and liabilities of banks makes it difficult to divide BIS data into the standard components (i.e., deposits and loans) specified in *BPM5*. Pursuant to a request from the IMF Committee on Balance of Payments Statistics, the BIS in 1994 undertook a pilot project to derive estimates of banks' international assets and liabilities excluding their holdings and own issues of securities. Using reported data, as well as estimated information, the BIS devised a methodology that enabled it to exclude securities from the data on BIS reporting banks' external positions. In 1995, the BIS began to compile a new statistical series—"BIS Reporting Banks' Estimated International Deposits and Loans"—for which quarterly data are available starting with the first quarter of 1994. These measures of international banking activity are better aligned with balance of payments classifications.

Although the new statistics have not been published, the BIS is prepared to consider written requests from national compilers for tabulations that exclude securities positions from the published data on external assets and liabilities of the BIS-reporting countries vis-à-vis their countries. The Fund communicated this information to its balance of payments correspondents earlier this year, and a number of countries have contacted the BIS in this regard.

BIS and IMF working in tandem

The BIS has produced a brochure that describes the international banking statistics and other financial statistics that it publishes. The brochure explains how the various series are constructed and what they seek to measure. The Fund's Statistics Department will distribute the brochure—*The BIS Statistics on International Banking and Financial Market Activity*—to member countries in the near future.

Recently, the BIS reported that a number of developments would improve its estimates of the banking data excluding securities. First, from the first quarter of 1996, data on banks' international deposits and loans for France and Germany will also exclude equity shares (and other forms of participation), in addition to international debt securities. Second, as of the same date, banking data excluding securities will also become available for Canada. Third, the Japanese authorities are considering providing detailed information, on a semi-annual basis, on

Japanese banks' holdings of foreign debt securities, by domestic and foreign currency and by country and sector. Previously, only global aggregates were available. As Japanese banks are the largest holders of foreign securities, this would represent a major enhancement to the BIS estimates on banking data excluding securities. Fourth, some offshore centers have indicated that they would consider expanding their reporting systems and reporting separate data on loans and deposits in the future.

Balance of payments compilers should evaluate the BIS' international banking statistics carefully to determine whether these data can be used to improve their balance of payments estimates. Compilers having questions in this regard are invited to write to the Fund's Statistics Department. □

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[1] See the *Report on the Measurement of International Capital Flows* (1992) and the *Report on the World Current Account Discrepancy* (1987), both published by the International Monetary Fund.

Germany

the
Netherlands

Comparing Bilateral Balance of Payments Statistics: The Case of Germany and the Netherlands

Comparing the balance of payments data of countries can point to gaps in their coverage and differences in their application of concepts, definitions, and compilation methods. Within Europe, the results of such comparisons are receiving special attention because a balance of payments statement will be compiled in the near future for the European Union (EU) as a whole. It will be drawn up by consolidating the national balance of payments statements of the member states. For that reason, discrepancies in practices among countries and across bilateral accounts, as are now found, could seriously hamper the consolidation effort. They suggest that there is a need for greater harmonization of national compilation practices among EU member states. The German - Dutch bilateral discrepancies, which are discussed here, by most measures, are substantial. The German Bundesbank and the Netherlands Bank recently have undertaken such a study of their causes. The results of the study should be of interest to other compilers.

Collection Systems

The relatively large discrepancies between the German and Netherlands bilateral data are especially noteworthy because both countries use a largely comparable "international transactions reporting system" to collect data for their balance of payments accounts. The German system is an "open" one, in which residents report all payments and receipts for their transactions with nonresidents, including transactions in goods, services, incomes, and transfers, as well as changes in their long-term financial assets and liabilities. The reporting is required regardless of whether the domestic banking system is used for the settlements or foreign accounts are held by residents. (Short-term financial transactions between residents and nonresidents are separately derived from relevant stock data.)

The Dutch system is a "closed" one. Residents (banks and nonbanks alike) are required to report to the central bank the opening and closing balances on their accounts held with or by nonresidents, as well as to specify all credit and debit entries on these accounts.   These include entries irrelevant for the compilation of the country's balance of payments — the so-called "neutral money transfers" (for example, settlements between two residents or two nonresidents). The "neutral money transfers" actually constitute an internal check on the comprehensiveness of the reporting.   Under the German "open" system, estimates are made for a number of components of the balance of payments, especially those in the transportation and income accounts.   The estimates are regarded as supplements to the system. In the Dutch case, few estimates are made.

Bilateral Comparisons

A detailed bilateral comparison was made of the "geographic breakdown" of the balance of payments on a transactions basis for both countries for 1991. The analysis was restricted to components in the current account and to long-term financial flows. Of the 90 items distinguished, including the aggregates, 20 showed a discrepancy of more than DM 1 billion in either the credit/debit entries or in the balances. There was a large discrepancy in the bilateral current account — DM 10 billion — representing some 15 percent of the gross flows in the current account. Differences in the classification of transactions were not the main source of the discrepancies. An examination of the balance of payment data of the two countries over a number of years suggests that the discrepancies found for 1991 were a structural phenomenon, relating to the conceptual incomparability of specific components.

Conceptual Incomparability

Conceptual differences were found to be a major cause of the bilateral discrepancies. The bilateral comparison revealed that there was almost no item without conceptual divergences or practical problems. The discrepancies were only partly caused by clear deviations from the IMF Balance of Payments Manual. In many cases, the discrepancies were related to differences in the interpretation or application of the theoretical concepts. Differences in the two countries' estimation procedures also were significant.

A clear case of conceptual divergence is merchanting trade. This trade involves net revenues a country receives or pays in handling transactions in goods between two other countries. Data on merchanting trade cannot be compared on a bilateral basis because the bilateral trading partner is not the counterpart. It can be argued, therefore, that merchanting should be excluded from bilateral balance of payments statements. The logic is that if a country imports substantial goods through the intermediation of foreign merchanting traders, the bilateral merchandise accounts can be seriously distorted. In the case of Germany and the Netherlands, the inclusion of the merchanting data in both their balance of payments accounts explained 75 percent (DM 7.6 billion) of the total bilateral discrepancy in the current account. This large amount was mainly due to the gross recording of the merchanting flows by the Netherlands and the net recording of this item in the German balance of payments (i.e., the German balance of payments shows the net overall trade margin distributed to various countries' shares of its gross merchanting sales).

Conceptual incomparability also arises in items based on a classification of domestic sectors. A case in point is the distinction between private and official transfers. If, for instance, commuters pay taxes and make social security contributions to a host country, these will be recorded as a private transfer in the commuters' country and as an official transfer in the host country.

. . . but bilateral payments discrepancies are substantial . . .

Germany

the Netherlands

. . . due to various differences in compilation methodologies and practices

Geographic Allocations

Another cause of bilateral discrepancies was traced to the differing criteria used by the two countries to determine the geographic allocation of their international transactions. Germany and the Netherlands apply different geographic criteria, for example, for both merchandise and portfolio investment transactions. German imports are geographically allocated according to the country of origin, while Dutch imports are attributed to the country of consignment. Both countries assign exports to the country of destination. It is, therefore, not uncommon that Germany allocates some of its imports shipped from the Netherlands to a third country, the country of origin of the imports. As a result, figures on Dutch exports to Germany exceed those shown for German imports from the Netherlands.

Furthermore, although Dutch imports are allocated to the country of consignment, figures on German exports to the Netherlands exceed those shown for Dutch imports from Germany. This can be explained by the shipment of German goods to the Netherlands — principally to the Rotterdam harbor — of unknown final destination. While Germany considers these shipments as exports to the Netherlands, the latter treats them as "transit trade," which is not included in the Netherlands' trade statistics.

As concerns criteria for the geographic allocation of portfolio investment, the Netherlands applies the "transactor" principle for transactions in both financial assets and liabilities; Germany allocates such transactions in its foreign assets by the debtor country and its foreign liabilities by the transactor country. Consequently, the German transactions in portfolio assets when transacted through a third-country cannot be compared with the Dutch transactions in portfolio liabilities, because German transactions in Dutch securities are allocated to the residents of the third countries. Also the Dutch transactions in portfolio assets cannot be compared with the German transactions in portfolio liabilities because the data on Germany's external liabilities are restricted to its domestic securities. The Dutch foreign assets include all non-Dutch securities, which also comprise non-German securities. These differences indicate that, to compile balance of payments on a national basis, as well as for the EU as a whole, EU member states would have to apply the "transactor" principle for transactions in domestic securities and a dual geographic principle (both by debtor country and by transactors) for their transactions in foreign securities.

Gross or Net Recording of Transactions

It was found that, in many cases, bilateral discrepancies were caused by differences in gross or net recording of transactions. A noteworthy case relates to the large number of special financial institutions (SFI's) located in the Netherlands. These resident entities specialize in group financing by receiving funds from abroad and re-lending and investing these funds in their entirety abroad. Because these transactions are almost entirely neutral for the Dutch economy, only the (temporary) net balance of these transactions is recorded in the Dutch balance of payments under the item "other long-term capital." However, the inclusion of the gross SFI data could substantially reduce some of the bilateral

discrepancies in such components as incomes, royalties and license fees, direct investment, and portfolio investment.

To cite another example, recorded Dutch interest payments surpassed recorded German receipts substantially. This was due to the gross recording in the Netherlands of interest payments made by Dutch residents on Dutch DM-bonds issued in Germany. In the German balance of payments, only the receipts for German resident investors were recorded. The channeling of the remaining interest payments to investors of third countries was irrelevant for the German balance of payments and, therefore, was not accounted for in the German statistics.

Definitions and Classifications of Transactions

Differing definitions and classifications of transactions used by the two countries also accounted for some of the discrepancies. For instance, as concerns direct investment, Germany, unlike the Netherlands, excludes short-term intra-group lending and reversals of such investments. Germany also applies a 20-percent threshold for direct investment; in the Netherlands, the ultimate aim of the investor is decisive. Furthermore, the coding schemes of the two countries for the classification of transactions can only be reconciled partially. For many components of the services account, only large groups of items could be made more or less comparable. Another obstacle encountered was the phenomenon of combined transactions. One example is payments by German importers to Dutch transport companies that include reimbursement for EU import levies.

Gaps in Coverage

Other bilateral discrepancies could be attributed to the differing coverage of various services components. In this regard, it was found that there could be data gaps in German credit entries for some business services (presumably underrecording of the receipts of small enterprises) and in German credit and debit entries for services between related enterprises (presumably incomplete coverage of intercompany accounts and/or nettings).

Valuation of Transactions

With regard to the valuation of transactions, both countries adhere to the concept of market price. For reinvested earnings, however, large discrepancies were found between the German and the Dutch figures. Fiscal considerations may account for these differences, although they could also be related to varying definitions of direct investment (see above).

Timing of Transactions

In a settlement system, the timing of transactions can pose problems, particularly if reports of settlements are submitted to the central bank with undue

Germany

the
Netherlands

delays. For annual figures, this phenomenon is not likely to produce substantial discrepancies. In the German system, however, reinvested earnings are allocated to the year after they have arisen.

Germany

the Netherlands

Conclusions

Care should be taken in comparing bilateral balance of payments statistics, even if the data collection systems of the countries concerned appear quite comparable. Various applications of concepts and definitions can generate many bilateral discrepancies. This can have major consequences for the compilation of a balance of payments for a group of countries, such as the EU. The need to compile a national balance of payment statement and one for the EU as a whole, which is to be constructed by consolidating balance of payments data of member states, raises many conceptual and practical issues currently being discussed in Europe. □

This article is based on "A Comparison of the Bilateral Balances of Payments of Germany and the Netherlands," by Frank E.M. Ouddeken, De Nederlandsche Bank, Statistical Information and Reporting Department, SIR-papers nr. 94.3, October 1994, Amsterdam.

Using Interest Payments to Estimate Holdings by Nonresidents of Austrian Debt Securities

T he Oesterreichische Nationalbank (Austria's central bank) has devised a method to estimate the "geographic breakdown" of nonresidents' holdings of Austrian securities. Such information is reported in Austria's international investment position. Debt securities are the most important instrument among Austria's portfolio investment by nonresidents. The percentage of debt securities — bonds and notes as well as money market instruments — among gross external liabilities in Austria's international investment position rose from 29.3 percent in l976 to 46.4 percent in 1994. In terms of Austrian shillings, they amounted to ATS 703 billion (31 percent of the gross domestic product). This indicates that nonresidents hold more than one-third of the total value of the debt securities outstanding.

From the perspective of Austria, the debtor country, it is important to know the geographic distribution of foreign creditor countries so that it can determine the ultimate foreign owners of its domestic securities. In practice, however, the debtor country cannot readily determine such creditor countries. In the case of Austria, the central bank compiles the country's balance of payments statistics largely by using data on individual transactions reported by banks on their own transactions, as well as those by the public sector, companies, and households. This compilation method does not provide a meaningful "geographic breakdown" in terms of ultimate ownership, for the counterpart is the transactor and not necessarily the owner. In addition, for the majority of the creditor countries that hold Austrian debt securities, bilateral statistics are not available that might reveal the extent of their ownership. Furthermore, Bank for International Settlements (BIS) statistics on international securities by creditor countries cover only the holdings of banks in countries reporting to the BIS; supplementary information indicates that holdings by banks inadequately reflect foreign creditor countries' total holdings of Austrian debt securities. Therefore, methods have had to be devised to estimate the geographic distribution of holdings by ultimate ownership.

Estimation Method

The estimation method devised by Austria's central bank utilizes information on interest payments Austria makes to recipient countries. It is based on the following assumptions:

- That interest payments are paid directly to the ultimate investors or to the custodian banks of the investors; and

- That interest payments on debt securities are made on the coupon dates.

For long-term securities, such as bonds and notes, the estimation method involves, step 1, determining the composition of the various debt securities issued by Austrian entities in various currencies. Such an examination shows that the major Austrian debt securities held by nonresidents are denominated in German marks,

Austria

Austria sought geographic breakdown of nonresident holdings of its debt securities

Austria

*Interest payments
key to estimation
method devised*

Swiss francs, Japanese yen, U.S. dollars, and Austrian schillings. Step 2 involves compiling information reported by banks on interest payments made to nonresidents in various countries and in the five major currencies. Step 3 concerns developing a weighting scheme to adjust the interest payments reported by banks (as compiled in Step 2) in order to derive the geographical distribution of nonresident ownership of Austrian securities. Step 3 is illustrated in the table below using data for 1994; the relative weights are used to remove the downward bias for countries with low interest rates. Step 4 involves applying the relative weights to the interest payments made in major currencies to nonresidents in various countries (as compiled in Step 2). Step 5 deals with aggregating all interest payments estimated in Step 4 by country and express individual countries' shares of the total interest payments in percentages. The percentages are then applied to the figure of total nonresident holdings of Austrian securities (i.e., ATS 703 billion in 1994) to arrive at the ownership holdings by country.

Weighting Scheme — 1994

Currency in which Securities are Issued	Nonresident Holdings		Representative Yield *	Estimated Interest Payments	Adjusted Estimated Interest Payments	Relative Weights
	(Billions ATS)	%	%	(Billions ATS)	(Billions ATS)	
	(a)		(b)	(d) = (a) x (b)	(e) = (a) x (c)	(e) / (d)
ATS	98.4	14	7.03	6.9	5.5	0.810
DM	98.4	14	6.85	6.7	5.6	0.831
$	147.8	21	6.58	9.7	8.4	0.865
SF	140.6	20	4.57	6.4	8.0	1.245
¥	112.5	16	3.44	3.9	6.4	1.655
Other	105.5	15	—	—	—	1.000
	Total:		*Average:* (c)			
	703.0	100	5.69			

* *See Footnote 1.*

The respective percentages are applied to stock data on long-term debt securities of the previous year. The percentages of ownership are applied to the stock data of the previous year because new issues in the primary market do not create interest payments in the first year (assuming that the majority of bonds and notes have an annual coupon date); while in the year of redemption of a debt security, the last interest payment is included. (This method ignores the fact that ownership of the securities could change between the end of the year, when the stock data are compiled, and when the coupon dates for the interest payments occur. For example, ownership could shift between residents and nonresidents and between different countries of the nonresident creditors during this period. A high degree of "coupon-washing" would distort the results.)

The method described above can also be used for short-term securities, such as money-market instruments. In this case, the reference yield is derived from the annual average of the "Euro three month interest rate" provided by banks in international markets in Europe, which is published by Reuters and Telerate. In contrast to the calculation of the "geographic breakdown" of long-term securities, however, the representative ownership percentages are applied to current-year stock data.

Results

The first attempt to calculate the "geographic breakdown" of debt securities issued by Austria and held by nonresidents based on the stock data of 1994 shows that the respective percentage ownerships by nonresidents of Austrian debt securities correspond to the "breakdown" of the other financial instruments on the liabilities side of Austria's external position. About 65 percent of nonresident holdings of Austrian securities are estimated to be owned by residents of other member states of the European Union.

The Austrian central bank considers the work done on this estimation method as part of a long-term effort to improve the quality of the geographic distribution of Austrian securities held by nonresidents. It will review and modify the method periodically.

Risks and Possibilities of Cross-checks

The method of estimation just described is not feasible in the case of deeply discounted bonds and notes, such as zero-coupon bonds, because under such circumstances there are no interest payments. This shortcoming does not affect the meaningfulness of the results, however, because long-term securities are the main component of Austria's cross-border liabilities. Zero-coupon bonds issued by Austria and held by nonresidents are insignificant.

Another possible distortion could arise if many of the ultimate investors of creditor countries have their accounts with foreign banks that receive interest payments on their behalf. Under these circumstances, the country of the final investor would not be identified. At this stage, Austria's central bank is unable to quantify this distortion.

The possibilities of cross-checking the results derived from the interest payment method are limited. The holdings of foreign securities published by the BIS could be used for some creditor countries. Data on net capital flows to and from financial centers like London and Luxembourg could be referred to for others. Bilateral data published by countries on their holdings of Austrian debt securities also could be employed, if available. □

This article is an edited version of a paper prepared by Michael Andreasch of the Oesterreichische Nationalbank.

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[1] For example, the interest rate for a 10-year U.S. Treasury bond is used as a proxy for the interest rate on debt securities of similar maturity issued by Austrian entities in U.S. dollars. For Austrian securities issued in the other currencies, the representative yields used are those for Germany's public bonds of 9-10 years' maturity, Switzerland's government bonds, Japan's 10-year interest-bearing government bonds, and Austria's 10-year government bonds.

Austria

Meetings Calendar

1996	Selected International Statistical Meetings
June 6-7	Committee on Monetary, Financial, and Balance of Payments Statistics, EUROSTAT, Luxembourg
June 10-13	Conference of European Statisticians, Economic Commission for Europe (ECE), Paris
June 11	Thirteenth Meeting of Steering Committee on Coordination of Technical Assistance to Countries of the Former Soviet Union, Paris
June 18-20	Second EUROSTAT Seminar on Statistics in the Mediterranean-rim Countries, Naples
June 24-26	Expert Group on International Classifications, United Nations Statistics Division (UNSD), New York
July 2-5	Conference of International Association for Official Statistics, Reykjavik
August 18-24	Conference of International Association for Research on Income and Wealth (IARIW), Oslo
September 2-6	EUROSTAT High-Level Seminar on the State of Statistics in Countries of the Former Soviet Union, St. Petersburg
September 9-11	Conference of International Statistical Institute (ISI) (with BEA and EUROSTAT), Washington, DC
September 9-11	Meeting of Project Managers for the Coordinated Portfolio Investment Survey, Washington, DC
September	Seminar on Official Statistics, Past and Present, Economic Commission for Europe (ECE), Lisbon
October 24-25	IMF Committee on Balance of Payments Statistics
November 11-15	Meeting of the Expert Group on Monetary and Financial Statistics, Washington, DC
November	OECD Working Party on Tax Policy and Statistics, Paris