A Conversation with John McLenaghan, Recently Retired Director of the Fund's Statistics Department

*J*ohn B. McLenaghan, an Australian national, has been with the Fund for nearly 27 years, serving in a number of senior positions. He was Deputy Director of the Fund's Statistics Department (formerly the Bureau of Statistics) from 1981 to 1988, and then Director of the Department until November 1996, when he retired from the Fund. Before he retired, we asked him to share with us his views on some achievements of the Department during his tenure. Below are excerpts of Mr. McLenaghan's comments.

• On the growing responsibilities of the Department in the Fund's surveillance function . . .

One of the most important developments during my 15 years as Deputy Director and Director of the Statistics Department has been its increased responsibilities in the Fund's surveillance work. The increased focus on the currentness and quality of country data in Article IV consultations has been a feature of the strengthening of surveillance in recent years, especially following the Mexican financial crisis of late 1994/early 1995. Several reviews by the Fund's Executive Board since early 1995 have called for a strengthening of the country data review process. These developments have had a pronounced effect on the Department's work programs. As a result, the task of reviewing member countries' data in the context of Article IV consultations and in Fund financial programs with members has become a core function of the

Mrs. Carol S. Carson to Direct the Fund's Statistics Department

The Fund's Managing Director recently appointed Mrs. Carol S. Carson as the new Director of the Fund's Statistics Department. Mrs. Carson succeeds Mr. John B. McLenaghan, who took early retirement on November 30, 1996.

Mrs. Carson joined the Fund in May 1995 as a Deputy Director of the Statistics Department. Prior to joining the Fund, she has been with the U.S. Bureau of Economic Analysis for 23 years, the last 3 as the Bureau's director.

Contents

Selected Topics

Announcement

Statistics Department. It will remain integral to the Department's and the Fund's statistical efforts in the future.

• On the development of the data dissemination standards . . .

The development of standards for the dissemination of economic and financial statistics by members posed a significant challenge for the Fund staff, and more particularly for the Statistics Department, in the last two years. It has required intensive consultations between the Fund and users and producers of official statistics in many countries, especially private sector users, as well as with other international organizations. In the formulation of the Special Data Dissemination Standard (SDDS), attention was directed to the key aspects of good statistical citizenship by countries covering not only the coverage, periodicity and timeliness of data, but the requirements for access to data by the public, integrity and quality of data. The establishment of the Dissemination Standards

Photo

Bulletin Board (DSBB) now available on the Internet is a key to the effectiveness of the SDDS. Almost 40 countries have subscribed to the SDDS on a voluntary basis by the end of November, and we have already seen that the initiative is having a positive impact on countries' statistical systems. The Department is now in the process of developing the General Data Dissemination Standard (GDDS), which the Fund is to provide as a service for all of its members. I am confident that these standards will lead to significant and enduring improvements in national and international statistics.

• On the Department's work on technical assistance . . .

I have been gratified by the success of the Fund's technical assistance work in statistical areas, which is now one of our major activities. The technical assistance effort has expanded in form and content beyond the traditional areas of money and banking, balance of payments, and government finance statistics to real sector data, and more generally to institutional aspects of countries' statistical systems. Since the early 1990s, the number of the Department's technical assistance missions has tripled. During fiscal year 1995/96, the Department fielded 159 technical assistance missions to 81 countries. There has also been a substantial rise in statistical training activities both at the IMF Institute here in Washington and abroad, including more tailored support through the development of regional statistical training courses.

Resident statistical advisor positions have also been established in a number of the countries of the former Soviet Union and elsewhere.

• On the Department's work on statistical methodologies . . .

There have been some major developments in the Fund's work on statistical methodologies. From the early 1980's we participated actively in the interagency coordinating effort to revise the *System of National Accounts (SNA)*. More generally, the Department made major contributions to the *1993 SNA,* particularly in the areas of the financial accounts and the external accounts. I am also proud of our methodological work in balance of payments statistics. The fifth edition of the *Balance of Payments Manual (BPM5)*, which was completed in 1993, not only updated the methodology of the fourth edition but made great strides toward harmonizing the concepts and practices in the compilation of data for the balance of payments and the national accounts.

The *BPM5* has clearly had a major impact and the authorities in many countries have recognized the value of the changes introduced in the fifth edition and their possible implications for policy formulation. A number of countries have made commitments to adopt the recommendations of *BPM5* and are planning to devote greater resources to balance of payments work.

The *Balance of Payments Compilation Guide*, a first of its kind, by all accounts has been a much-appreciated companion document to the *BPM5*, as has been the third item in the trilogy, the *Balance of Payments Statistics Textbook*. The latter, complementing the *Manual* and the *Guide,* provides much-needed methodological and training support to compilers and users.

Another recent achievement of the Department has been the preparation of a draft *Manual on Monetary and Financial Statistics,* the first such manual produced in the Fund's 50-year history. We have reached the final stages of this undertaking, and early in November, at a meeting of monetary and financial statistics experts convened by the Fund in Washington, we saw a strong endorsement of the *Manual* and for the effort to harmonize it with the *1993 SNA.*

Looking to the future, we can also anticipate a ready audience for the revised *Government Finance Statistics Manual,* which is being prepared by the Statistics Department. It will address fiscal measurement issues, including accrual accounting/recording and quasi-fiscal activities, that have become critical to overall macroeconomic management. The revised *Manual* will also help bring government finance statistics into closer harmonization with the *1993 SNA* and the *BPM5.*

• On the Fund's participation in activities of the international statistical community . . .

I would be remiss if I failed to mention the expanding role and increasing involvement of the Fund in the activities of the international statistical community. I am pleased that I had the opportunity to be an active participant in such endeavors. I refer here to the work of the UN Statistical Commission, the UN's ACC (Administrative Committee on Coordination) Subcommittee on Statistical Activities (on which I served a term as Chairman), the Conference of European Statisticians, the Steering Committee on Technical Assistance in Statistics to the Countries of the former Soviet Union. In addition, the two studies on balance of

payments problems organized by the Fund during my period in the Statistics Department (the Working Party on the Discrepancy in World Current Account Balances and the Working Party on the Measurement of International Capital Flows) have been major undertakings. Their work led to the establishment of the Fund's Committee on Balance of Payments Statistics several years ago. To my knowledge, this is the only standing committee of member country representatives that the Fund has established.

• On the work programs of the IMF Committee on Balance of Payments Statistics . . .

It has been my privilege to serve as the first Chairman of this Committee. We have been fortunate from the outset to have had a committee composed of talented balance of payments compilers and statisticians. Inevitably, we have had some turnover in membership but the Committee continues to benefit from the strong commitment of members and participants from international organizations. The Committee has focused on statistical issues that are or could be of importance from a policy perspective and its work has addressed problems of concern to industrial, developing, and transition economies.

The practical issues have included consideration of specific steps countries might undertake to implement the *BPM5* and how such efforts might be advanced through various types of technical assistance. Of the conceptual issues recently discussed, attention has been directed to the treatment of financial derivatives. I have no doubt that the Committee will continue to make an important contribution in addressing global balance of payments compilation issues.

• On the challenges facing compilers of balance of payments statistics . . .

More generally, I would like to underscore the work performed by balance of payments statisticians. We have seen, for example, the positive response to our call for more and better statistics on individual countries' international investment positions. Similarly, they have been supportive of the Fund's proposal to conduct a major coordinated portfolio investment survey at the end of 1997. This survey will provide a benchmark for countries' external assets and liabilities in securities and other similar financial instruments. Of course, it takes time to introduce statistical and other changes on a global basis and we have to recognize that only some countries can be at the statistical cutting edge.

In the balance of payments area, new challenges are now emerging. Globalization will raise more difficult questions in terms of the residency principle which is so central to the present methodology. As requirements for new forms of statistics evolve, balance of payments statisticians will have to build bridges to new data presentations intended to serve different purposes. Events taking place in Europe also will pose new challenges. The move to a single currency by the European Union will necessitate a review of methods of compiling the balance of payments of individual EU countries and the Union as a whole. More generally, the needs of national policy makers and the international community for timely, accurate, and comprehensive balance of payments statistics can only increase, and efforts to improve the methodology, compilation, and dissemination of these data will remain a priority for national statisticians. □

IMF Launches Dissemination Standards Bulletin Board on Internet

O n September 19, 1996, the International Monetary Fund (IMF) opened its bulletin board for its Special Data Dissemination Standard (SDDS) on the Internet. The Dissemination Standards Bulletin Board (DSBB) is designed to provide information about the data dissemination practices of subscribing member countries. Its Internet address is **http://dsbb.imf.org**.

The SDDS and its associated bulletin board were established by the IMF to respond to the need for comprehensive and timely economic and financial data generated by increased global integration and the associated substantial expansion of financial flows. (See pp. 1-6, *IMF Balance of Payments Statistics Newsletter*, Volume IV, Number 1, June 1996 for background on the SDDS.)

Countries subscribing to the SDDS undertake to follow sound practices regarding (i) the coverage, periodicity, and timeliness of data; (ii) access by the public to those data; (iii) the integrity of the data; and (iv) the quality of the data. As of November 30, 1996, 39 countries had subscribed to the SDDS. They are: Argentina*, Australia, Austria, Belgium, Canada*, Chile, Colombia, Croatia*, Denmark*, Finland*, France*, Hungary, Iceland, Indonesia, Ireland*, Israel, Italy*, Japan*, Korea, Latvia, Lithuania, Malaysia*, Mexico*, the Netherlands*, Norway*, Peru*, Philippines*, Poland*, Singapore*, Slovak Republic, Slovenia*, South Africa*, Spain, Sweden*, Switzerland*, Thailand*, Turkey*, the United Kingdom*, and the United States*.

The IMF is currently exploring ways to facilitate electronic links from the DSBB to country data sites on the Internet for more countries that wish to have such links. □

---

* As of today, these countries have been posted on the Dissemination Standards Bulletin Board.

Economic and financial metadata now available on 39 countries

IMF Committee on Balance of Payments Statistics Maintains Active Work Program

T he IMF Committee on Balance of Payments Statistics held its ninth meeting on October 24 and 25, 1996, in Singapore. At the meeting, the Committee reviewed, among other items, the progress of its work program on the international coordinated portfolio investment survey, the development of an international securities database, and the conceptual treatment of financial derivatives transactions.

International 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.

Singapore conclave reviewed disparate statistical projects

In September 1996, the Fund's Statistics Department (STA) convened a meeting in Washington for national compilers of participating countries. In Singapore, the Committee reviewed the outcome of the meeting of the compilers and endorsed the principle of holding a second meeting of the same group of compilers in the mid–1997 to maintain the momentum of the project. (See also the article on pp. 10-11.) Also, at the Singapore meeting, the Fund presented a paper on the modalities of collecting data on the geographical distribution of securities held by country authorities as part of their foreign exchange reserve assets. This effort would complement the coordinated survey in that these data must be collected in order to produce a comprehensive picture of countries' portfolio investment liabilities, a key objective of the coordinated survey. To facilitate such data collection, it was agreed that during 1997 the Fund would write to Central Bank Governors/Finance Ministers about the need for these data.

Development of an International Securities Database

The Committee also considered the possibility of developing an international securities database for balance of payments statistical purposes. Such a database could help ensure consistent and accurate geographical distribution of securities among countries which is a key element of the coordinated portfolio investment survey. Following discussion at the meeting of the Committee held in April 1996,

*Topics ranged
from the
development of
an international
securities
database to
financial
derivatives*

the Ufficio Italiano dei Cambi (UIC) of Italy established the nucleus of a securities database, which it presented at the Committee meeting in October 1996. In the past, in view of the sheer number of securities in existence and the varying needs of compilers, some Committee members regarded this project as too ambitious. However, in response to the UIC presentation, and given the support for a coordinated effort by the national compilers at their September 1996 meeting on the coordinated portfolio investment survey project, the Committee decided to carry forward work on the database; progress will be monitored closely during 1997.

Treatment of Financial Derivatives

The Committee continued its on-going discussion of the methodological treatment of financial derivatives transactions and, in particular, the classification of net settlements of interest rate swap contracts and forward rate agreements (FRAs). In Singapore, the Committee discussed a paper that recommended that these transactions be classified in the financial account rather than in current account as recommended in the fifth edition of the *Balance of Payments Manual (BPM5).* Many members were impressed by the arguments advanced but concluded that further reflection was required before any decision could be taken. This issue is related to whether these instruments should be considered as financial assets. The definition of financial asset was discussed by the Expert Group on Monetary and Financial Statistics convened by the Fund to consider the new *Monetary and Financial Statistics Manual* (see box on p. 9). The monetary statisticians agreed that the interest rate swaps and FRAs should be considered financial assets; the implication of this view for the balance of payments is that transactions in these instruments would be classified in the financial account.

The Committee also saw a need to coordinate the work of economic statisticians in this field and those collecting information primarily for supervisory purposes on derivatives markets under the auspices of the Bank for International Settlements (BIS). As a first step, the Fund will write to those balance of payments compilers who intend to collect data on financial derivatives as part of the coordinated survey to inform them of the BIS work and to encourage cooperation. Efforts to improve coordination in this field are likely to be sustained. □

On the Treatment of Financial Derivatives

In November, 1996 the Fund hosted a meeting of a group of experts on monetary and financial statistics in conjunction with the finalization of the *Manual on Monetary and Financial Statistics (MMFS)*. Among the many issues addressed by the group was that of financial derivatives.

The group made substantial progress in a number of areas related to financial derivatives, including the financial asset boundary, valuation, and classification of derivatives, and treatment of certain classes of derivatives. In particular, the great majority of the group were in favor of recording settlement payments on interest rate swaps and forward rate agreements (FRAs) as financial account transactions in derivatives, rather than as property income as recommended in the *1993 SNA* and *BPM5*.

The group recognized that more technical work needed to be done, particularly to ensure consistency with the recommendations of the *1993 SNA* and *BPM5*. Any conceptual changes proposed in the context of the *MMFS* not reflected in the national accounts or balance of payments methodologies would undermine the process of harmonizing and promoting consistency among related statistics. This has been one of the principal objectives of recent revisions in international methodological and conceptual manuals. The meeting agreed on the importance of maintaining this consistency.

Given the strength of views favoring change in the classification of settlement payments on interest rate swaps and FRAs, it was agreed that a second meeting of the informal group on the measurement of financial derivatives be held, probably in the spring of 1997. Fund staff will prepare a paper for this meeting which will bring together the various strands of work undertaken in the field of financial derivatives. The purpose will be to provide an agreed paper to the 1997 meeting of the IMF Committee, and then to the Intersecretariat Working Group on National Accounts on possible changes in the *1993 SNA* and *BPM5*.

Changes to the recommendations contained in the *1993 SNA* and *BPM5* are intended to be few. They can only be approved by the Intersecretariat Working Group on National Accounts—a group consisting of the United Nations, International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, and Eurostat—only after there is clear evidence that a large majority of compilers favor change. Because experience with financial derivatives is now greater than when the *1993 SNA* and *BPM5* were drafted, it is perhaps not entirely surprising that it is in this field that the pressure for change has been strongest. The Fund would welcome the views of compilers with clear preferences in the treatment of interest rate swap and FRA settlements transactions.

If the Intersecretariat Working Group agrees to adopt the recommendations for change arising from the Informal Group, this will have implications for balance of payments compilers. In particular, a recommendation to regard settlement payments on interest rate swaps and forward rate agreements as financial account rather than current account transactions would require a change of the classification recommended in *BPM5*. From a practical viewpoint, it would be advisable for compilers to take steps to separately identify these transactions, so that any recommended change in classification could be implemented at the national level in a relatively straightforward manner.

Please address any comments, views, or requests for further information on this topic to the editor of the newsletter, whose address is given on page 2. The Fund welcomes correspondence.

Planning Proceeding for 1997 Coordinated Portfolio Investment Survey

T he IMF Committee on Balance of Payments Statistics is organizing a survey of countries' ownership of equities, as well as of bonds and notes issued by nonresidents, as of the end of December 1997. The Committee has set the following two objectives for this coordinated portfolio investment survey (the Survey):

- To improve statistics on countries' cross-border holdings of securities and to provide a check on the coverage of their portfolio investment financial flows and associated investment income.

- To exchange comparable data among participating countries (respecting confidentiality) in order to improve countries' estimates of their external portfolio investment liabilities as well as associated financial flows and investment income data.

In 1994 at the Committee's request, the Fund established a task force of experts in the field of portfolio investment compilation to draw up detailed technical specifications for conducting the Survey. The task force was given a deadline of the end of March 1996 to complete its work. It met this deadline, and in August the Fund published the product of its work: the *Survey Guide for the Coordinated Portfolio Investment Survey* (the *Survey Guide*). Although produced primarily to assist compilers of those countries participating in the coordinated survey, the *Survey Guide*, by bringing together in one document the expertise of many of the most experienced compilers in this field of statistics, is a publication of value and relevance to any compiler undertaking a survey of portfolio investment. For this reason, the Fund has sent a copy of the *Survey Guide* to all of its balance of payments correspondents.

Meeting of National Compilers

National compilers charting different courses on Survey work

In September 1996, as part of the ongoing preparatory work for the coordinated survey, the Fund convened a meeting of national compilers from participating countries. The purpose of the meeting was to discover more about countries' plans regarding the coordinated portfolio survey and to share experiences and existing knowledge among compilers on conducting such surveys. In total, 37 compilers attended the meeting, representing 29 countries and the European Monetary Institute (EMI). The participants found the meeting helpful and informative.

Regarding countries' plans, the meeting revealed, not unexpectedly, that countries are at different stages of preparation. In general, most industrial countries are drawing on existing collection systems and have reasonably well advanced plans or intentions. Among emerging economies, the state of preparation varies. Nonetheless, virtually all countries have carried out some degree of initial planning, including discussions with potential respondents, and have decided upon the type of survey they intend to conduct. A review of their plans revealed that compilers are taking a wide variety of approaches because of the different

circumstances and domestic market structures they face. The most common approaches being adopted are aggregate surveys concentrated primarily on either end-investors or custodians, and security-by-security surveys targeted mainly on custodians. Two countries are intending to conduct security-by-security surveys approaching primarily end-investors.

The meeting also revealed that many countries are taking the opportunity to collect more portfolio investment information than is required for participation in the coordinated survey. Around half the countries represented intend to combine the survey of portfolio assets by counterpart country with a survey of portfolio liabilities by counterpart country. As a consequence, these countries will be able to compare their own liability data with that received under the data exchange. This might reveal the size of the gap in liabilities data attributable to the issuance by residents of securities in foreign markets, which are purchased by nonresidents. Many countries also intend to collect information on resident ownership of money market instruments, as well as derivatives issued by nonresidents, and on ownership of nonresident securities by each domestic economic sector.

Participants at the meeting discussed all aspects of conducting a portfolio investment survey. Presentations were given by experienced compilers, and these were clearly educational for less experienced compilers. In addition to briefings on collection methods, there were discussions on the coverage of household sector investments in nonresident securities and about institutions located in offshore financial centers. Also addressed were problems faced in ensuring consistent country attribution, a key feature of the coordinated survey. The meeting addressed the need to ensure accurate valuation of securities, to distinguish between securities held for direct investment and for portfolio investment purposes, and to acquire the legal backing required for the survey. Methods of compiling, maintaining, and using a register of respondents also were considered, as was how to choose and utilize computer packages to process the results. Methods of ensuring quality control received attention. The emphasis in all discussions was on the practical problems compilers face and how different compilers approach and solve them. It was revealed that problems encountered may differ in importance depending upon the type of data collection method used.

Survey considers both methodological and practical issues

The degree of interaction and discussion among participants was notable, and many of those present are likely to remain in contact. The Fund is facilitating this contact by establishing a network of compilers. It will allow them to raise with a wide audience issues and problems on an ongoing basis. There was agreement that a second meeting of the compilers would be held in mid-1997. Its aim will be to review progress made on initiatives undertaken at the first meeting, to consider the experiences gained from pilot projects planned in a number of countries, and to focus on other issues that emerge over the coming months. A number of participants requested that some smaller groups be established at the next meeting so that compilers adopting similar data collection methods can discuss issues of mutual concern. □

Coordination With Data Users and Providers Is Key to United Kingdom's Statistical Work

A key to producing timely, accurate, and relevant economic data on a cost-effective basis is for compilers to coordinate closely with data providers and data users. Such coordination enhances data providers' understanding of why timely and accurate information is required of them. It also ensures that only relevant data that meet users' needs are produced. This article highlights such efforts undertaken by the UK's Office of National Statistics (ONS) and the Bank of England. It is an edited version of a paper contributed by Caroline Lakin of the United Kingdom's ONS in October 1996.

The Government Statistical Service

In April 1996, the ONS was created through the merging of the UK's Central Statistical Office (CSO) and the Office of Population, Censuses, and Surveys. ONS is responsible for a major part of government statistical work, although significant specific areas, such as basic trade data, transport, and defense statistics, are under the purview of other departments. That is, in the United Kingdom official statistics are a product of a partially decentralized system, of which ONS forms the center. In partnership with statisticians in other government departments, ONS makes up the Government Statistical Service (GSS), which is responsible for most of the United Kingdom's official statistics. While other departments have their own statistical work programs, the Director of ONS, as head of GSS, has overall authority for coordination. Among aims of the GSS are:

- To provide statistics the government may need to formulate policy or monitor its implementation;

- To advance the statistical work of researchers, analysts, and other members of the public; and

- To ensure that UK and international statistical reporting requirements are fully met.

Advisory Committees

As promulgated by the GSS, government departments and agencies sponsor formal advisory committees to provide independent advice on statistical matters. These committees often make recommendations that balance the interests of data users, providers, and other concerned groups. There are 40 official advisory committees in total, covering a wide range of subject areas. The main committee is the Statistics Advisory Committee, which advises the Director of ONS on its statistical work and on his responsibilities as head of GSS. The GSS also promotes and encourages establishment of user groups run by users for users. National accounts and balance of payments statistics both benefit from the work of statistical advisory committees and user groups. In addition, the Customs and Excise Department has a range of consultative committees that, while having authority that goes far beyond statistical matters, have advised on matters related to INTRASTAT, the statistical system introduced by the

European Union member countries to measure intra-European Union merchandise trade.

Other Consultative Arrangements

In addition to using formal advisory bodies and user groups, GSS takes every opportunity to consult with interested parties using various mechanisms. These include the following:

- Monitoring complaints;

- Soliciting suggestions;

- Staging open days and road shows;

- Conducting opinion surveys;

- Participating in professional organizations; and

- Consulting representative organizations.

Each mechanism has its own strengths. The mechanisms chosen depend on the advice required, how the results will be used, and how much money and time are available for such consultations.

One major consultative arrangement concerns the development of new surveys. Each new statistical survey of business and local authorities has to be cleared by the Survey Control Unit (SCU) of ONS and has to have ministerial approval. The SCU carefully assesses the needs of data users and the estimated costs to data providers. In addition, each existing survey is formally reviewed every three to five years with the participation of data users and data providers. The review team usually includes an external adviser. GSS discusses possible survey changes with data providers, and new forms are tested.

In addition, GSS is experimenting with electronic data interchange in an effort to develop alternative methods of collecting and disseminating business data. GSS provides information to business data providers on the importance and usefulness of the aggregate data. It also has sponsored discussions on the commercial development of software that will enable firms to extract official statistics more easily.

GSS canvasses the views of readers and prospective readers of statistical and other publications. The BOPFS Division of ONS, for example, is in regular contact with major data users. The publication of contact names on data releases facilitates this process. In addition, the lead department or the relevant interdepartmental GSS committee assesses users' statistical needs by consulting associations or user groups.

ONS coordinates closely with data providers. Among data providers are government departments and bodies, including the Bank of England, and agencies that conduct various statistical surveys. CSO had negotiated agreements with most government departments on their supply of data, and the terms were carried over by ONS. They cover the quality and timeliness of data supplied and, in some cases, data development programs. In an effort to maintain close working contacts with the compilers of the merchandise trade statistics, ONS and

UK Government statistical agencies work closely with advisory committees and consult widely

Insights of data users and providers tapped

Customs hold regular meetings to review matters of joint concern. The BOPFS Division of ONS has also made presentations to Customs on the uses made of Customs data (and to users with the aim of increasing understanding of the trade statistics).

United Kingdom

Initiatives Concerning Compliance Costs and Complex Businesses

GSS estimates that business in 1995 spent £21.5 million to comply with ONS survey requirements. In real terms, this represents £6.6 million less than in 1994. Current plans are to reduce this sum by a further £2 million over the next three years, resulting in an overall decline of 25 percent from the 1994 level. At the same time, the plans allow for some increased user demand for statistics. There is a continuing drive to minimize the burden on businesses while sustaining the quality of data. This is being achieved by reducing duplicative requests for data, simplifying forms, improving sampling methods, and referring to business registers to distribute the reporting burdens on individual businesses more fairly. It is also being accomplished by tailoring survey instruments to better suit individual respondents as well as testing different methods of electronic data collection. ONS will have a "business charter" describing its aims to work with businesses, both as users and providers of data.

Efforts undertaken to ease compliance

One recent ONS initiative was to set up a unit that oversees reporting by complex businesses. Its two primary objectives are these:

- To ensure that statistical coverage of each large multi-activity business is complete and non-overlapping, i.e., to identify and eliminate omissions and duplications; and

- To create for those businesses, where practical, homogeneous reporting units based on kinds of activity.

The unit is responsible for reviewing and modifying, as necessary, the reporting structures of large and complex businesses. It will be in the vanguard of collecting data using electronic questionnaires.

Consistent with the objective of maintaining close links to data users, ONS is actively engaged with various groups of users, such as those of trade statistics within industry and the financial sectors. These range from user groups for individual product areas, such as textiles, to groups that cover a wider range of users, including the INTRASTAT Statistics User Group. Staff members attend the meetings of these groups, and frequently give presentations on special topics of interest to users. Staff members act as an extra source of advice and information.

Bank Briefing Seminars

Briefings of Bank of England officials clarify reporting procedures

The Bank of England's Bank Briefing Seminars began with a two-day pilot seminar in December 1994. Thereafter, the seminars were reduced to one intensive day without greatly paring back the content. The seminar program formally began in February 1995, and to date there have been 21 seminars, each with between 30 and 55 attendees.

The core purposes of the Bank Briefing Seminars are to convey to the reporting banks—some 500 institutions—the importance of the information they produce and, hence, of accurate and timely reporting. The target audience is staff members primarily responsible for, or directly involved in, the completion of Bank of England returns. Seminar organizers strive to point out how each type of data is utilized in published statistics and how the Bank uses the data.

An attempt also is made to identify and clarify common reporting difficulties that banks experience with individual forms. This objective is advanced by a number of interactive exercises, including introduction of a "mock-up" balance sheet on which participants are asked to identify incorrect and implausible entries. They also are required to determine the correct industrial classification of ten different loans on one of the domestic banking forms. Both domestic banking and balance of payments forms are discussed, as well as the relationship between them.

There are two lectures during the day not specifically related to particular forms. First, there is a description in layman's terms of what "monetary aggregates" are and why they are central to the policymaking process. Second, a senior manager from the Supervision and Surveillance Division of the Bank of England delivers a lecture. This hour is not tailored to particular reporting forms or problems. Rather, it is used to explain the types of risks banks take and the reasons why the Bank of England monitors them. This lecture is one of the most popular and clarifies some reporting mysteries. The underlying premise of the lecture is that the quality of the figures supplied will improve when suppliers have a good understanding of how data are used.

Throughout the day and at an evening reception, attendees have an opportunity informally to converse with members of the Monetary and Financial Statistics Division of the Bank of England. This exchange has greatly improved the relationship between the banks and the Division. It also has increased the number of technical queries the Division has received before banks submit data, as opposed to after they do so.

Many banks prepare data for reporting to the Bank of England using commercial accounting software. In addition to the Bank Briefing Seminars, the Bank of England also holds periodic informal liaison meetings with software firms that produce such packages.

Since July 1996, the Division also has run Banking Statistics Review Seminars. These seminars are intended to brief banks on the main changes in the reporting forms that have resulted from the current Banking Statistics Review. The review covers European System of Accounts 1995 and *BPM5* implementation. The half-day BSR Seminars are organized much like the Bank Briefing Seminars. Their target audience similarly is bank staff members directly involved in the completion of Bank of England returns. To date, there have been 15 Banking Statistics Review Seminars, with around 45 attendees at each. In the future, the emphasis will shift from seminars covering general implications of the review to specific seminars examining details of changes in individual forms. □

United Kingdom

Australia Uses Wide-Ranging Indicators to Assess Quality of Its Balance of Payments Statistics

*M*ost countries expend considerable resources in an effort to produce high-quality balance of payments data, but how do they determine the quality of the data collected? This article describes a range of methods Australia uses to evaluate the quality of its balance of payments statistics, which are compiled by the Australian Bureau of Statistics (ABS). In the process, the article discusses data quality concepts and factors that influence the quality of the statistics. In particular, measures of accuracy and reliability that the ABS uses to assess its balance of payments statistics are explained. This article is drawn from a paper entitled "Quality Assessment Methods and Indicators for Australia's Balance of Payments Statistics," contributed by the ABS in October 1995.

Data Quality Concepts

The quality of balance of payments statistics should be judged in terms of their usefulness in meeting users' information needs. To be of high quality, the statistics must be relevant to users' needs, accurate, reliable, comprehensive in coverage, consistent with related statistics, timely, and easily accessible. While each of these criteria is important, this article focuses only on those of accuracy and reliability.

The concepts of accuracy and reliability can be defined as follows:

- Accuracy is the proximity of an estimate (especially the final, or fully revised, estimate) to some notional true value.

- Reliability is the proximity of initial and intermediate estimates for a particular period to the final estimate for that period.

In the extreme, an estimate may be completely inaccurate but entirely reliable. That is, it bears no resemblance to the true value but, because of the absence of better information, the initial estimate is never revised. It may also be possible ultimately to produce a highly accurate estimate although early estimates were unreliable.

ABS measures data "accuracy" and "reliability" to determine data quality

To meet the decision-making needs of users, however, accuracy and reliability should be mutually reinforcing. In Australia, there is pressure to produce balance of payments statistics on as timely and frequent a basis as possible. However, significant improvements in timeliness generally can only be made at the expense of data detail, accuracy, and reliability.

Accuracy of Statistics

Because the true value of a balance of payments estimate seldom, if ever, can be determined, its accuracy cannot always be measured objectively. As a practical alternative, however, the most recent estimate for an observation period can be taken to approximate true value. A number of specific indicators can also be used to assess the accuracy of the data. ABS keeps sampling errors under review to ensure that

sampling procedures do not have an adverse impact on the series from which Australia's balance of payments statistics are compiled. It also examines the net errors and omissions (the balancing item) to assess accuracy. Different patterns in the balancing items may provide insights into possible causes of errors in the statistics. Persistently large balancing items may indicate underlying problems of coverage with the accounts. In terms of this indicator, accuracy appears to have improved in Australia's balance of payments statistics since 1959–60, when the ABS commenced compiling quarterly balance of payments statistics.

ABS also examines the consistency of relationships over time among various related series. An inconsistent relationship between the series being compared (where a consistent relationship is expected) may indicate errors in the statistics, changed economic circumstances, special factors, or significant statistical noise (i.e., the data are suspect, but there is insufficient information available to resolve whether the data are accurate or not). Australia regularly analyzes and publishes various ratios between balance of payments statistics and other series.

To the extent that other countries compile balance of payments statistics by partner country on a basis largely consistent with that used by Australia, it is also possible to compare partner countries' estimates of their transactions with Australia to Australia's estimates of its transactions with those countries. Bilateral studies ABS has undertaken have alerted the statistical agencies involved to possible causes of discrepancies in the statistics and suggested areas of improvement, which are being pursued.

In addition, subjective assessments of accuracy can be made for the major aggregates within the balance of payments accounts. The ABS from time to time develops and publishes subjective ratings for monthly, quarterly, and annual estimates for each of 18 balance of payments aggregates. These ratings, from A through D, provide the user with a guide to the likely error (from less than 5 percent through to 15 percent or greater), based on recent experience and existing methodologies, that could be associated with initial estimates published for these aggregates.

Reliability of Statistics

Concerning reliability of the data compiled, a measure of such quality is the extent to which an initially published estimate is revised and subsequently republished. A measure of reliability can inform users how much reliance to place on an estimate of an aggregate, particularly the initial estimate. If it is likely to be revised, how great is that revision likely to be and in which direction? Are decisions made on the basis of the initial estimates likely to prove ill-founded after later revisions?

To assess the longer-term reliability of balance of payments transactions estimates (i.e., the reliability of the level at which aggregates are estimated), the ABS examines the bias and dispersion of the revisions. Bias is a measure of the extent to which initial estimates are lower or higher than the final estimates and gives an indication of the direction of revisions. It can be calculated as the average of the differences between the initial estimate for each period and the latest estimate published for the same period, with positive and negative revisions

Australia

being netted against each other. Dispersion is a measure of the "spread" of estimates and indicates the magnitude of revisions. It is calculated as the average difference between the initial estimate for each period and the estimate published one year later for the same period, but with positive and negative revisions not being netted against each other. The shorter-term reliability of the series is assessed using the direction and magnitude of revisions after one year. In this case, the difference between initial estimates and those published one year later for the same period is computed both with regard to sign (direction) and without regard to sign (magnitude).

In addition to considering the revisions to transactions estimates, it is also important to consider the extent to which estimates of period-on-period movements in balance of payments aggregates are modified by revisions. For example, are turning points or points of inflection in series subsequently altered? This analysis can be undertaken graphically by plotting initial estimates of movement on the horizontal axis and the latest estimates of movement between the same two periods on the vertical axis. A movement that has remained unchanged since initially published could be plotted on an imaginary 45° line running from the bottom left corner to the top right corner of the chart, passing through the origin. Points that lie off this line indicate periods for which the latest estimate of the period-on-period change differs from the initial estimate of that change. Examination of the proportions of points lying above or below the 45° line can give insights into the bias in the estimates of movement.

Points on a chart that lie in either the top left or bottom right quadrants indicate a change in sign for the period-on-period movement between the initial and latest estimate. For example, these quadrants include cases where an initial improvement in the deficit on current account was subsequently revised to indicate a worsening of the deficit, or vice versa. Other things being equal, these cases might be considered the most likely to mislead the user and should be of most concern.

Applying the above tests, together with several other analyses of reliability to the Australian case, it was found that initial estimates of most items in Australia's balance of payments statistics are negatively biased, i.e., understate the latest estimate. This implies that generally positive revisions are introduced in later estimates. The pattern is similar for all periodicities—monthly, quarterly, and annual statistics. In terms of the average value of revisions, income debits are the least reliable of the current account components for all periodicities. This is also true in proportional terms except for annual estimates. In the case of annual estimates, revisions to income credits are particularly high, reflecting the experience with revising estimates of reinvested earnings on direct investment. For all periodicities, average one-year revisions to the balance on current account are negative, i.e., revisions make the deficit on the current account larger. Subsequent revisions lower the estimate to a value close to the initial one. Bias associated with financial account items is larger and more erratic than with current account items. The Australian experience suggests that initial estimates of the current account deficit tend to be relatively close to the final estimate, and initial estimates of movements in this balance are relatively reliable and unbiased. On the other hand, the initial measures of net financial transactions are strongly negatively biased—implying an understatement of the surpluses — and the behavior of revi-

sions is erratic. This indicates that the initial estimates of the balancing item and subsequent sizable revisions to it largely reflect deficiencies in measuring net financial account transactions.

Initiatives To Improve Quality

The use of data quality indicators, such as those described in this article, are considered important for sustaining the ongoing improvement in quality of Australia's balance of payments statistics. While ABS occasionally undertakes detailed analyses and publishes the results, several basic indicators are compiled and reported annually to ABS management. These basic indicators include:

- A statement of the mean bias and dispersion estimates for key balance of payments current account aggregates for recent periods, compared across periods;

- Analysis of revisions to key current and financial account aggregates; and

- Analysis of the size of the balancing item.

A range of initiatives to improve the quality of Australia's balance of payments statistics are either under way or planned. Further data quality initiatives will be developed and implemented over time as findings from future studies reveal the need for a stronger quality focus in particular areas. □

Australia

Actions planned to correct data shortcomings

Italy Adopting New Approach To Estimate Its International Tourism

*I*nternational tourism is important to the Italian economy, much as it is to those of most European countries. Nonetheless, it has long been difficult to measure flows of tourists to and from Italy and to assess the financial consequences of these movements. The traditional approach Italian authorities followed was to determine amounts of foreign currencies entering and leaving the country, and to use these totals to estimate tourism. The authorities have recognized, however, this approach will have to be discarded once the European Union (EU) adopts a single currency. For that reason, the Ufficio Italiano Dei Cambi (UIC) since last year has been conducting surveys of tourists. Preliminary results from the surveys suggest that they provide a promising means of obtaining data on tourism essential for balance of payments and other purposes. This article describes these new surveys. It is adapted from a 1995 UIC document, "Sample Survey on Italian International Tourism."

Need for a Tourism Survey

Tourism central to Italian economy

Tourism has always represented a key source of net currency inflows for Italy. This has particularly been the case in the past several years, however, because a depreciation of the lira has boosted international tourism. In 1994, credits in the tourist balance of payments were approximately twice debits, accounting for a surplus of about 19,000 billion lira. This equates to approximately 75 percent of the balance of the current account and 1.1 percent of gross domestic product. In 1995, Italy registered a further increase, with a balance of approximately 25,000 billion lira. In terms of travel credits, Italy will probably rank in the second position in the world, following the United States.

The significance of tourist transactions in Italy's balance of payments accentuates the need for accurate, timely, and reliable information on such activities. Both in Italy and in other countries, the travel item of the balance of payments has been the object of methodological scrutiny for many years. In general, the large number of elements involved, both on the demand side (travelers that use tourist services) and on the supply side (tourist enterprises), makes it difficult to produce satisfactory information. Moreover, the expansion of the tourist market in recent years has compounded this problem, as has the liberalization of foreign exchange transactions in many countries.

A few examples of the Italian situation may serve to illustrate how Italy's tourist data from conventional surveys have deteriorated in recent years. This, in turn, has led to a degradation in related statistical series and problems of international comparability. Until 1990, Italy's international tourist transactions were subject to regulations on exchange control. The transactions had to be carried out through banks, which had to report regularly to the UIC. After the removal of foreign exchange restrictions, data on travel had to be collected directly from the non-bank tourism operators. Consequently, a Statistical Foreign Exchange Form (*Communicazione Valutaria Statistica*) was introduced. This form is required for transactions of more than 20 million lira; as it does not cover tourist transactions below that threshold, it results in an underestimation of tourist flows. In addition, frequent settlements through clearings between enterprises that operate in this sector also

make it difficult to determine tourism-related flows. Determining the correct geographical allocation and the distribution of tourist expenditure by purpose of journey (holiday, business, etc.) also is problematic. In addition, detailed information on the means of payment used by Italians traveling abroad frequently is unavailable.

Meanwhile, the data collection system based on banks' reports cannot be satisfactorily modified in the short term to obtain better information on tourism transactions. Furthermore, this system of data collection is likely to become less effective with the introduction of the European Monetary Union as the single currency will reduce the information available on Italian banks' transactions with nonresidents within the EU. A special task force composed of representatives of central banks and national statistical offices from the EU has recently been established by the Statistical Office of the European Union (EUROSTAT). Its aim is to develop harmonized methodologies for EU member states to compile the travel item in balance of payments.

The UIC in this context has developed a sample survey on tourism. In the early phases of the survey project, different options were carefully examined. It was determined that surveys of travel agencies, accommodation providers, and households would not result in complete coverage. Travel agency surveys and accommodation surveys do not permit exhaustive data collection. The former do not capture payments made directly by travelers without going through travel agencies, while the latter do not take account of single-day visitors and travelers staying at private lodgings, such as houses of relatives and friends. As concerns household surveys, the interviews are usually carried out long after the end of a trip, and travelers may find it difficult to remember details. Household surveys, moreover, require development of large samples because travelers form a small subset of the whole population.

In view of the drawbacks of conventional survey instruments, UIC officials decided to adopt a frontier survey, despite its high costs of implementation. The pilot survey carried out in mid-1995 made it possible to verify techniques, collection tools, and procedures to be used in the final survey. The main objectives of the frontier survey were to obtain high-quality statistics on tourism for balance of payments purposes and to provide data users, including those in the tourist industry, additional information on Italy's tourist market.

Design of Sample Survey

The main difficulty in planning the sample survey was that complete official statistics on foreign and Italian travelers with a sufficient level of disaggregation were not available. The National Statistical Institute (*Institute Nazionale di Statistica - ISTAT*), with the help of frontier authorities, records monthly data on inflows of foreign travelers to Italy, but it does not monitor flows of foreign travelers leaving Italy or Italians traveling abroad. Seaport and airport authorities count passengers arriving and leaving, but they generally do not distinguish between Italian and foreign travelers. The number of foreign travelers on Italian railways is collected at frontiers, but the data are incomplete.

Given these difficulties, the frontier survey was conducted in two stages simultaneously. In the first stage, representative samples of all travelers were submitted to short interviews to estimate the number of foreign travelers leaving Italy and the number of Italian travelers returning to Italy. In the second stage, data on

Conventional surveys rejected

Italy

Frontier survey introduced involving interviews of travelers

expenditures and other aspects of the trips were recorded, both for Italian and foreign travelers. Interviews were always conducted at the end of stays (in Italy or abroad).

The methodology is somewhat similar to that used in the United Kingdom for recording flows of travelers and their expenditures. However, the British International Passenger Survey is relatively simple in that interviews can be performed in a number of seaports and airports. Furthermore, many interviews are carried out on ferries, which afford more favorable conditions for obtaining the cooperation of passengers.

UIC adopted a multiple-stage sampling approach; the first-stage sampling units, frontiers, were stratified. Four types of frontiers were considered: road, railway, international airport, and seaport. Although it was not feasible to consider all frontier sites, 51 were chosen. They were selected on the basis of annual flows of travelers, which, in turn, were derived from *ISTAT* data on arrivals of foreign travelers. A threshold was set to ensure coverage of at least 80 percent of the tourist flows. Making the final cut were:

- Twenty-one road frontiers crossed by at least 200,000 foreign travelers per year, representing 80 percent of the total crossings recorded by *ISTAT* statistics in 1994.
- Eight international seaports, with flows of over 70,000 travelers per year, covering 83 percent of flows.
- Eight railway crossings, having flows of over 30,000 units per year, representing 98 percent of the arrivals of foreign travelers.
- Fourteen international airports, accounting for flows of over 50,000 units per year, covering 94 percent of the flows of foreign travelers.

The sampling rate used in the British International Passenger Survey, about 0.2 percent, was followed to determine the sample size for the interviews on expenditures. In the Italian case, given the number of Italian travelers in the previous year, this translated into 0.190 percent of Italian travelers and 0.134 percent of foreign travelers. The sample sizes produced an acceptably low level of error in estimates.

Sampling Procedures

The interviews comprised 15 questions regarding:
- *Features of travelers*
  - Sex and age of respondent and people traveling with the respondent.
  - Province of residence for Italian travelers and country of residence of foreign travelers.
- *Features of the journeys*
  - Destination (Italian provinces visited by foreigners; foreign countries visited by Italians).
  - Types of accommodations.
  - Main purpose of the journey.
  - Length of the journey.
- *Expenditure data*
  - Global expenditure and its distribution by type of expenditure (accommodations, meals, and transportation).
  - Pre-paid amounts (hotel reservations, etc., and other data for the calculation of global expenditure).

    - Amounts spent at destinations and means of payment (banknotes, credit cards, etc.).
- *Level of satisfaction for some aspects of the journey*
    - Opinions and attitudes toward services acquired during the journey and toward the country of destination.

During the mid-1995 survey, 46,669 interviews were conducted and data on 320,000 passages through 51 frontier crossings were collected. The foreign visitors interviewed came from more than 100 countries. Interviews took place mainly at road frontiers (56 percent), followed by airports (29 percent), railway stations (10 percent), and seaports (5 percent) traversed by ferries and cruise boats. Italian travelers made up 44 percent of the respondents; the remainder were foreigners.

Results of the Sample Survey

The results of the survey provided information on the following:

- The amount the traveler paid for trip-related expenses in the country of residence before leaving.
- The cost of transport the traveler incurred for trip-related expenses in the country of residence before leading.
- Expenditure at the destination (for foreign travelers this is the total amount paid in Italy; whereas, for Italian travelers it is the total amount paid abroad).
- Expenditure on board and lodging.

According to the survey results, Italian and foreign travelers prefer to use banknotes changed at home or abroad, rather than paying by credit card or to draw cash abroad. Also evident is a preference for travelers to buy foreign currency in their countries of residence.

The integration of the bank reports with survey data will allow UIC to reprocess Italy's balance of payments. Adjustments will affect travel, transport, and, considering unrecorded transfers of Italian banknotes, capital movements. The revision will be carried out when sufficiently long time series are available.

As concerns the geographical distribution of travelers, Germans represented 33 percent of the total number of travelers and the French, 12 percent. In comparison with foreigners, Italians are most inclined to visit non-EU and non-European countries.

The survey also showed that 53 percent of foreign travelers came from EU countries and visited northern Italian regions, while 32 percent of Italian travelers residing in northern Italy had visited EU countries. The importance of the regions in northern Italy can be partly attributed to *border workers* and *same-day travelers*. The percentage of foreign travelers coming from EU countries and going to regions in central Italy (11 percent) is virtually identical to that of Italians residing in central Italy and going to EU countries.

As regards means of transport, the car is by far the most commonly used. This result is explained by the high correlation between the area of origin and destination of the travelers. The phenomenon is particularly evident for foreigners (73 percent) because of a greater concentration of holiday resorts in northern Italy and the greater mobility the car allows to travelers willing to visit more than one region. Italians use airplanes and trains more than foreigners, while foreigners prefer ships.

Survey yields wealth of data on tourism

The *1996 Balance of Payments Statistics Yearbook* Expands Coverage

The Fund has released its Volume 47 of the *Balance of Payments Statistics Yearbook* (*Yearbook*). The new *Yearbook* retains the features introduced in Volume 46 and offers some new innovations. Specifically, Volume 47 presents, for the first time, international investment position (IIP) data in the format set forth in the fifth edition of the Fund's *Balance of Payments Manual* (*BPM5*) for those countries that compile such data. The IIP of a country is a balance sheet of its stock of external financial assets and liabilities. Volume 47 also breaks new ground by offering detailed reviews of the methodologies, compilation practices, and data sources of most of the countries included in the volume. These descriptions are largely based on information countries provide to the Fund. They are intended to enhance users' understanding of the coverage, as well as of the limitations, of individual country's data published in this *Yearbook*. They are also designed to inform compilers of data sources and practices of their counterparts in other countries. As in Volume 46, balance of payments data are presented in the new *Yearbook* in accordance with the standard components of the *BPM5*. The *BPM5*, which the Fund published in September 1993, introduced a number of methodological changes in the compilation of balance of payments data to better reflect changes that have occurred in world trade and finance in the past decade.

The Fund staff's data conversion work has made possible the presentation in the *BPM5* format of both historical data from the Fund's database and more recent statistics reported by those member countries still compiling their data in the format of the fourth edition of the *Balance of Payments Manual* (*BPM4*).

The *1996 Yearbook* has three parts. Part 1 presents annual balance of payments data for 160 countries and IIP data for 35 countries. Part 2 contains regional and world totals for major components of the balance of payments. Part 3 provides metadata (technical descriptions) relating to the balance of payments of 108 reporting countries. Part 1 is separately bound, and Parts 2 and 3 are published together.

There are six annexes presenting the standard components of balance of payments and IIP data, the accompanying data codes, and the conceptual framework of the balance of payments. The annexes also explain the coverage of major components of the balance of payments accounts, as set forth in the *BPM5*.

Statistics published in the *Yearbook* are also available on computer tape. The number of countries and time series covered in the tape version is somewhat larger than that appearing in the printed version of the *Yearbook*, as is the number of periods for which data observations of time series are provided. Quarterly data reported by countries are also available on the tape. Tape subscribers receive Part 1 of the printed version of the *Yearbook* and twelve monthly magnetic tapes. The tapes include updates and revisions of data as they become available. Inquiries about the tapes should be addressed to: