

Balance of Payments Statistics

A NEWSLETTER FROM THE BALANCE OF PAYMENTS AND EXTERNAL DEBT DIVISIONS • STATISTICS DEPARTMENT • IMF

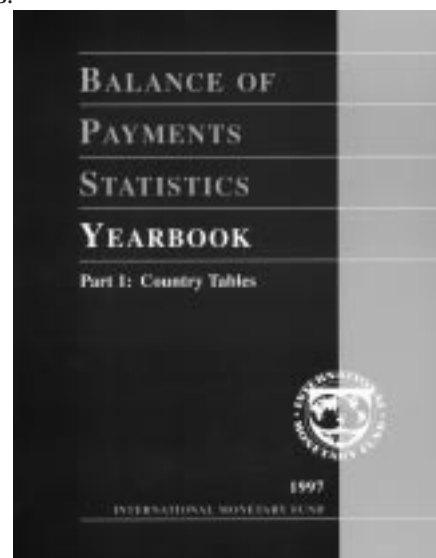
*Yearbook
keeping pace
with compilers'
needs*

IMF Releases Its 1997 *Balance of Payments Statistics Yearbook*

The IMF has published a new edition (Volume 48) of the *Balance of Payments Statistics Yearbook*. The 1997 yearbook retains the major features introduced in Volumes 46 and 47. Specifically, as in Volume 46, balance of payments data are presented in the yearbook in accordance with the standard components of the fifth edition of the *IMF Balance of Payments Manual (BPM5)*. The *BPM5*, which the Fund issued in September 1993, initiated a number of methodological changes in the compilation of balance of payments data intended to reflect changes that have occurred in world trade and finance over the past decade and a half. Similarly, as in Volume 47, the 1997 yearbook presents international investment position (IIP) data in the *BPM5* format for those countries that report such data. The IIP of a country is a balance sheet of its external financial assets and liabilities. Building on Volume 47, the new yearbook presents detailed descriptions of the methodologies, compilation practices, and data sources of most of the countries included. These methodological descriptions are largely based on information countries have provided to the Fund. They are designed to enhance users' understanding of the coverage, as well as of the limitations, of individual country's data published in the yearbook. They also apprise compilers of data sources and practices of their counterparts in other countries.

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 1997 yearbook has three parts. Part 1 presents annual balance of payments data for 162 countries and IIP data for 37 countries. Part 2 contains regional and world totals for major components of the balance of payments. Part 3



Volume V, Number 2
December 1997

Continued on page 3

Contents

IMF Releases Its 1997 <i>Balance of Payments Statistics Yearbook</i>	1
IMF Committee on Balance of Payments Statistics Continuing Its Major Work Program	4
New International Guidelines Formulated for Recording Transactions in Financial Derivatives	7
Interim Results of the IMF/OECD Foreign Direct Investment Methodology Survey	10
Selected Topics	
United States Introduces New Measures of Its Portfolio Assets Abroad and U.S. Currency Flows	14
Recording “Shuttle Trade”—The Cases of Germany and Russia	19

IMF Balance of Payments Statistics Newsletter • Volume V, Number 2 • December 1997
(<http://www.imf.org/external/pubs/ft/bop/news/index.htm>)

The IMF *Balance of Payments Statistics* newsletter is published twice a year by the Statistics Department of the International Monetary Fund. The purpose of the newsletter is to inform balance of payments data compilers and users about national and international developments in the collection of such data. Editions are published in English, French, Spanish, and Russian. The opinions and material contained in this newsletter do not necessarily reflect the

official views of the IMF. Draft submissions are welcome and should be addressed to Anne Y. Kester, Editor, IMF Balance of Payments Statistics Newsletter, Balance of Payments and External Debt Division II, Statistics Department, Room IS5-300, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-7922 • Fax: (202) 623-8017. Graphic design for this newsletter is provided by Isabelle Grohol.

Continued from page 1 provides methodological descriptions of the balance of payments data of 135 reporting countries. Part 1 is separately bound; Parts 2 and 3 are published together.

To provide data users an understanding of the definitions and classifications underlying the compilation of balance of payments accounts, Part 1 of the yearbook contains six annexes, which present 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 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:

Publication Services
International Monetary Fund
Washington, D.C. 20431, U.S.A.
Telephone (202) 623-7430
Telefax (202) 623-7201 □

IMF Committee on Balance of Payments Statistics Continuing Its Major Work Program

The tenth meeting of the IMF Committee on Balance of Payments Statistics was held at the IMF headquarters in Washington, D.C., on October 22–24, 1997. Among other matters, the agenda covered progress in implementing the international portfolio investment survey coordinated by the Fund, a discussion paper prepared by the Fund staff on the statistical measurement of financial derivatives, the possible enhancement of the coverage of reserve assets and related data, and conceptual and measurement problems associated with so-called “shuttle trade.”

International Coordinated Portfolio Investment Survey

As previously reported in this *Newsletter*,¹ in a major effort to improve the external portfolio investment statistics of countries, the Committee established 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), an area of statistics in which traditional measurements have been rendered inadequate by the liberalization of world financial markets and the introduction of numerous financial innovations. The results of the survey, when available, will 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.

The Committee was encouraged by the large attendance—37 compilers from 28 countries—at the meeting the Fund hosted in June 1997 for compilers from countries participating in the survey. It was also gratified that approximately 30 countries, including virtually all of the major investing countries, will conduct the survey. The Committee supported the Fund's proposal to approach major reserve holding countries to obtain information on securities held as foreign exchange reserve assets. Such information is needed to achieve a comprehensive coverage of counterpart countries' portfolio investment liabilities, which is a key objective of the survey. The Committee also focused on the potential gaps in the survey results related, in particular, to the absence of data pertaining to Luxembourg and Switzerland, which are not participating in the survey. It was agreed that the Fund would investigate methods of closing these gaps, using, in so far as possible, available information; the Bank for International Settlements offered to supply relevant information from its international banking statistics. The Committee approved a proposal to publish the final results of the survey.

New Guidelines on Financial Derivatives

The Inter-Secretariat Working Group on National Accounts (ISWGNA) at its meeting in October 1997 approved the recommendations contained in a Fund

discussion paper “The Statistical Measurement of Financial Derivatives.” The Committee also endorsed these recommendations, which, inter alia, would extend coverage of financial derivatives within the balance of payments and national accounts to include over-the-counter forward contracts. (See related article on pp. 7–9.) It was agreed that the Fund would revise and circulate for the Committee’s review the relevant sections of the fifth edition of the *IMF Balance of Payments Manual (BPM5)*. Simultaneously, the Fund is taking the lead in revising the relevant sections of the *1993 System of National Accounts (1993 SNA)* for the ISWGNA’s approval.

While there was agreement among Committee members on the conceptual treatment of financial derivatives, there were divergent views regarding implementation of the recommended approach. While some members wanted to move ahead with the implementation of the new guidelines, others did not see implementation as a priority. It was agreed that the Committee will take no action at this time to encourage implementation of the new guidelines but that experiences of countries in implementing the guidelines will be shared at the next Committee meeting in October 1998.

Enhanced Coverage of Data on Reserves

Developments in financial markets in the third quarter of 1997, particularly in Asia, raised interest at the international level in reserves and reserves-related data. At its meeting in October 1997, the Committee discussed possible enhancements of information on reserve assets and reserves-related data. Considerable differences of view were expressed. Some Committee members pointed to the sensitivities associated with reserves-related activity, and thus the difficulties in developing the data. Others stressed the need to disseminate more information to enhance transparency. Work in the Fund on this issue continues, and the Committee may be called upon to provide technical expertise.

Recording Shuttle Trade

In 1997, the Committee focused its attention on the increasing value of goods purchased abroad by travelers for resale in their home countries—“shuttle trade.” Committee members from Germany and Russia reported on the conceptual and practical issues that have arisen. (See related article on pp. 19–24.) While it was acknowledged that the principles contained in *BPM5* and in the *1993 SNA* do not need revision, the Committee agreed that STA should produce a paper for the next Committee meeting setting forth the appropriate conceptual approaches, highlighting practical reporting problems, and explaining how they are being addressed in different countries.

IMF/OECD Direct Investment Methodology Survey

The Committee reviewed progress on the joint IMF/OECD survey on implementation by member countries of international guidelines for the measurement of direct investment. No fewer than 112 countries had completed the

*Committee
addressing key
emerging issues*

comprehensive survey forms; and a metadata database is being developed to store the information collected. (See related articles on pp. 10–13.) The Committee agreed that there should be some mechanism to keep these metadata current, and it encouraged the IMF and OECD to consider developing links between the metadata and the actual data countries publish. □

¹See *IMF Balance of Payments Statistics Newsletter*, December 1996 and June 1997 issues.

New International Guidelines Formulated for Recording Transactions in Financial Derivatives

In November 1997, the Fund sent a copy of the paper “The Statistical Measurement of Financial Derivatives” to compilers in all IMF member countries. The paper is a comprehensive document that sets out the new international guidelines for the measurement of activity in financial derivatives. These guidelines were approved by the Inter-Secretariat Working Group on National Accounts (ISWGNA) and by the IMF Committee on Balance of Payments in October 1997.

The paper was a product of a meeting of the Informal Group on the Measurement of Financial Derivatives (Informal Group) held in Washington, D.C., in April 1996; various meetings of the IMF Committee on Balance of Payments Statistics; and an Expert Group meeting held in November 1996 regarding the *IMF Manual on Monetary and Financial Statistics (MMFS)*. A draft of the paper was sent to compilers in IMF member countries for review, and many commented.

The paper includes four chapters, four appendices, and a glossary of terms used in the text. The four chapters provide a detailed explanation of the conceptual framework for measuring financial derivatives activity in the national accounts; an explanation of how to treat some of the most common over-the-counter forward-type contracts, such as interest rate and foreign currency contracts; an explanation of the treatment of margin payments; and a discussion of the classification of financial derivatives in the national accounts and balance of payments. This article summarizes of the most important clarifications and changes that the paper introduces to the guidelines set out in the *1993 System of National Accounts (1993 SNA)* and fifth edition of the *IMF Balance of Payments Manual (BPM5)*.

In many respects, the key recommendations contained in the *1993 SNA* and *BPM5* remain unchanged in the new international guidelines. The view is still that financial derivatives should be treated as financial assets and that transactions in them generally should be treated as separate transactions, rather than as integral parts of the underlying financial assets to which the financial derivatives are linked as hedges. Nonetheless, a consensus has emerged among compilers that a wider range of financial derivative instruments should be regarded as financial assets than were explicitly covered in the *1993 SNA* and *BPM5*—especially over-the-counter forward-type contracts. In practice, to reflect the growing consensus view without opening up the financial asset boundary to financial arrangements that are generally not accepted as being financial assets, the paper includes a more specific description of financial derivatives than appears in the international manuals, as shown below:

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Unlike debt instruments, no principal amount is advanced

*Treatment of
financial
derivatives
transactions
clarified*

to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes including risk management, hedging, arbitrage between markets, and speculation.

The description makes no distinction between on- and off-exchange “traded” financial derivative instruments. Consequently, the paper concludes that:

Financial derivatives, as described above, should be included in the national accounts as financial assets, regardless of whether “trading” occurs on or off exchange. If the financial derivative cannot be valued because a prevailing market price for the underlying item is not observable, it cannot be regarded as a financial asset.

It is important to note that, in the absence of an observable price for the underlying item, the financial derivative cannot be valued, cannot be regarded as a store of value, and thus cannot be regarded as a financial asset. Only instruments that have a demonstrable value are regarded as financial assets in the 1993 SNA.

Some of the most important over-the-counter forward-type contracts in terms of market activity are interest rate swaps and forward rate agreements (FRAs). Both the 1993 SNA and BPM5 recommend that net cash settlement payments associated with these instruments be recorded in the income/current account as property income. Many compilers have questioned this treatment, because of the nature of the use of these instruments in the market and because in the 1993 SNA property income is defined as “income receivable by the owner of a financial asset in return for providing funds to another institutional unit,” (paragraph 7.88), and neither interest rate swaps nor FRAs involve the provision of capital from one counterparty to another. For this and other reasons, the paper concludes that:

Interest rate swaps and forward rate agreements should be classified as financial assets; and net cash settlements payments in these financial derivatives should be classified as financial account transactions rather than as interest. This change will affect recorded interest in the national accounts, and hence have implications for national income.

Moreover, many compilers maintain that the reasons advanced above for classifying net cash settlement payments on interest rate swaps in the financial account apply equally to net cash settlement payments on the interest element of cross-currency interest rate swaps. Thus, the paper concludes that:

Net cash settlement payments on the interest element of cross-currency interest rate swaps should be classified as financial account transactions.

Among compilers there has been some uncertainty as to the measurement in the national accounts of transactions in financial derivatives associated with the delivery of an underlying asset. Most compilers reason that, if a financial derivative is recognized as a financial asset, its exercise is a transaction that should be recorded as such even if the underlying asset is delivered. So, while it is recognized that there could be practical difficulties in implementing this conceptual treatment, the paper concludes that:

A transaction in an asset underlying a financial derivative contract that goes to delivery should be recorded at the prevailing market price for the asset with

the difference between the prevailing price and the price actually paid (times quantity) recorded as a transaction in financial derivatives.

In addition, the paper points out that financial derivatives are different in nature from other financial assets including portfolio investments: they neither raise capital nor accrue interest, and they encompass both traded and nontraded instruments. Consequently, financial derivatives do not naturally fall into the existing national accounts and balance of payments categories. The paper concludes that:

Financial derivatives should be recognized as a separate instrument category of financial assets in the national accounts, and as a separate functional group in the balance of payments reflecting their distinct characteristics¹.

Nonetheless, because many countries are still developing systems to capture financial derivatives activity and the practical implications of such a change to the international reporting guidelines need to be carefully considered, the paper also concludes that:

The practical implications of this change need to be considered before it is implemented into the international reporting standards for balance of payments. □

¹In the balance of payments, depending on the type of transactors, financial derivative transactions and positions could be included under "reserve assets" if a monetary authority owns or transacts in financial derivative assets and the assets meet the criteria of a reserve asset; or under "direct investment" if the transactors are in direct investment relationship and they are not banks or financial intermediaries.

Interim Results of the IMF/OECD Foreign Direct Investment Methodology Survey

Introduction

In May 1997, the IMF and OECD jointly launched the survey of implementation of international methodological guidelines for direct investment. They did so after consulting with the IMF Committee on Balance of Payments Statistics (the Committee) and the OECD Group of Financial Statisticians (GFS). The survey is a comprehensive study of data sources, collection methods, and dissemination and methodological practices that countries use to compile foreign direct investment (FDI) statistics. Similar surveys were conducted in 1983 by the OECD for OECD member countries and in 1991 by the IMF Working Party on Measurement of International Capital Flows, which involved 38 of the major reporters of FDI statistics.

As of November 1997, 112 countries had replied to the 1997 survey. Although not all of the information received has been processed, this article presents preliminary survey results. It highlights major weaknesses in national FDI compilation systems. It also includes information on the background and conduct of the survey.

Background on the Survey

At its October 1995 meeting, the Committee decided to review the progress countries were making in implementing the FDI guidelines set out in the fifth edition of the *IMF Balance of Payments Manual (BPM5)* and the third edition of the *OECD Benchmark Definition of Foreign Direct Investment (Benchmark)*. The Committee approached the OECD about the possibility of conducting a joint survey. This approach was timely because an OECD Council recommendation adopted in July 1995 had mandated that the GFS maintain information on countries' compilation of FDI statistics as well as notes describing the areas where member countries' methodologies differ from those prescribed in the *Benchmark*. At a meeting in October 1996, the Committee supported a joint Fund/OECD study of their member countries' methods for compiling FDI statistics.

The 1997 FDI Survey

The Committee set forth three objectives for the survey:

- To determine the extent to which member countries have adopted the guidelines on FDI statistics found in *BPM5* and the *Benchmark*. Consequently, the survey included questions on all the major methodological issues related to the measurement of FDI.

- To obtain information on data sources, collection methods, and dissemination practices (e.g., availability, periodicity, timeliness, revision policy, breakdowns) member countries use to compile the data.
- To facilitate the exchange of information on such compilation practices among reporting countries. Consequently, the survey form was designed with a view to collecting a set of easily comparable metadata (information about data sources and related compilation practices) on FDI statistics. A question was incorporated in the survey form to identify the countries that would allow their survey information to be made available to IMF and OECD member countries.

The survey form was designed as a multiple-choice questionnaire. This design was intended to reduce the time compilers would require to complete the form, while covering all the major issues. It was understood that because of the multiple-choice format, country-specific practices might not always be explicitly reported. Therefore, space was provided for comments throughout the survey form. A draft survey form was circulated to Committee members for comment in March 1997. The OECD circulated the same draft survey to the GFS for review. The comments from the Committee members and the GFS were incorporated into the survey form.

In May 1997, the survey form was sent to 171 IMF member countries, of which 29 were also OECD member countries. The form was made available in English, French, Spanish, and Russian to ensure a high response rate and meaningful responses. As of November 1997, 112 countries had completed and returned the questionnaire. Additional responses are expected. Twenty-one of the 23 selected industrial countries have returned completed forms; 91 of the 148 selected developing countries have done so. Countries from Africa and the Middle East are showing a lower than average response rate.

The overall quality of the survey responses appears to be good. In a few instances, countries had difficulty completing the detailed questions but provided useful information on their future plans for improving the compilation of FDI statistics.

Preliminary Results

The preliminary results of the 1997 survey on FDI statistics were based on responses from 39 countries (20 industrial and 19 developing), which have recorded major FDI flows in recent years. The 1997 results were compared with those supplied by 38 respondents (19 industrial countries and 19 developing countries) in response to an IMF survey conducted in 1991. One key finding of the IMF Working Party was that reported global outflows on FDI exceeded reported global inflows. The major sources of such discrepancy as identified in the IMF Working Party's report¹ and the position as now indicated by the 1997 FDI survey are indicated in the following paragraphs:

- The IMF Working Party's report identified the failure of many countries to compile data on reinvested earnings as the most important source of the discrepancy in global direct investment data. The preliminary 1997 survey results indicate that 70 percent of the sample

*Survey explored
methodological and
other issues
related to FDI
statistics . . .*

*... and revealed
some data
discrepancies
requiring attention*

countries compile reinvested earnings data, up from 60 percent in the 1991 sample. Among the industrial countries, only 5 of the 20 countries do not compile data on reinvested earnings, as opposed to 11 of the 19 countries in the 1991 sample.

- The Working Party's report also cited that many countries, contrary to the international guidelines, do not include short-term capital flows between affiliated enterprises in their direct investment data. The preliminary 1997 survey results indicate that 80 percent of the industrial countries and 50 percent of the developing countries record such short-term financial flows, compared with about half of the industrial countries and few developing countries in the 1991 sample.
- The Working Party noted that many countries do not consider "special purpose entities" (SPEs) of multinational enterprises to be residents of their economies for balance of payments transactions. SPEs are offshore enterprises (that is, organized or established in economies other than those in which the parent companies are located) that engage primarily in international transactions and do little or no local business. Types of SPEs include "financing subsidiaries," which are set up abroad to raise and channel funds to their parent enterprises, and "holding companies," which are set up mainly to hold investments in their countries. The *BPM5* recommends that SPEs be included as direct investment enterprises and that all transactions between SPEs and other economies should be recorded in balance of payments accounts of the countries where they are located. The preliminary 1997 survey results indicate that out of the 23 sample countries that report on SPEs in their economies, 21 include transactions of SPEs in their FDI statistics. Many countries with large SPE activities, such as the Bahamas and the Netherlands Antilles, however, were not included in this preliminary analysis.
- Exclusion of cross-border purchases and sales of real estate in direct investment flows was another source of data discrepancy that the IMF Working Party identified. According to the *BPM5*, cross-border investment in land and structures is considered direct investment. The preliminary findings of the 1997 survey indicate little or no improvement compared with the practices described in the IMF Working Party report. Only 13 of the industrial countries reported covering real estate transactions by enterprises, and only 11 reported monitoring such investment by individuals.
- The IMF Working Party found that another source of data discrepancy relates to the misclassification of investment by a direct investment enterprise in its direct investor. The international guidelines recommend that all such investment by a direct investment enterprise in its parent company be recorded as direct investment flows. The preliminary 1997 survey results indicate that only three of the industrial countries and one of the developing countries record such financial transactions in strict conformity with the recommendations of the international manuals. The results also show that when equity participation by a direct investment enterprise in its direct investor is sufficient

to establish a direct investment relationship in its own right, FDI financial transactions (both equity and loans) are properly recorded by 11 of the industrial countries and five of the developing countries. Nonetheless, in the instances where equity participation by the direct investment enterprise as a direct investor is not sufficient to establish a direct investment relationship in its own right, only three of the industrial countries and two of the developing ones recorded such FDI financial transactions between the affiliates and their parent companies.

- The international manuals recommend that 10 percent or more of the common shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) establishes a direct investment relationship—the so-called “10-percent rule.” The preliminary 1997 survey results indicate that 30 of the 39 countries apply this “rule,” compared with only 10 of the 38 countries in the 1991 sample.
- The IMF Working Party urged compilers to prepare and exchange information on geographical breakdowns of direct investment flows following the method of geographical allocation recommended in *BPM5*. The preliminary 1997 survey results suggest that 17 of the 20 industrial countries and 12 of the 19 developing countries compile direct investment flows by country for inward direct investment.

Planned Release of Survey Results

The Fund and OECD will continue to process the survey results. At its meeting in October 1997, the Committee endorsed the idea that the IMF and OECD produce a joint final report. This report will be distributed to members of the Committee, the GFS, and member countries of both organizations. The joint final report will provide summarized information on data sources, collection methods, and dissemination practices, as well as information on the extent to which countries have adopted the international guidelines. It will also include a section on the sources of bilateral discrepancies of the data.

Efficient data compilation and bilateral exchange of data require the availability of information on the compilation of the data. This is the rationale for the creation of a metadatabase. The metadata on FDI statistics will provide detailed information collected from the 1997 survey on each reporting country that has agreed to make its metadata available to other compilers. The metadata should assist national compilers to implement international guidelines and facilitate the exchange of bilateral information. □

¹See *Report on the Measurement of International Capital Flows*, International Monetary Fund, September 1992.

United States Introduces New Measures of Its Portfolio Assets Abroad and U.S. Currency Flows

As part of its ongoing efforts to improve the U.S. balance of payments data, the Bureau of Economic Analysis (BEA)¹ of the U.S. Department of Commerce, with the assistance of the U.S. Treasury and the U.S. Federal Reserve Board, has recently taken steps to close two major data gaps. Specifically, using results of a new benchmark survey of U.S. portfolio investment abroad conducted by the U.S. Treasury and of estimates of international flows of U.S. currency developed by the Federal Reserve Board, BEA has significantly improved its data on U.S. holdings of portfolio assets abroad and U.S. currency flows to and from foreign countries.

The new benchmark survey of outward U.S. portfolio investment was the first such survey the U.S. Treasury had conducted in more than 50 years.² The Federal Reserve Board's effort to estimate international flows of U.S. currency was also a new initiative. These two methodological milestones have allowed BEA to strengthen its estimates in several ways. In particular, the new data on U.S. holdings of foreign portfolio assets have led to better estimates of income receipts on such holdings. In addition, they have enabled BEA to cross-check the coverage of outward portfolio investment flows in the financial account of the U.S. balance of payments. They also have permitted BEA to update its estimates of U.S. bond and stock holdings abroad, which are included in the U.S. international investment position. Similarly, the introduction of estimates of international flows of U.S. currency has not only broadened such data coverage in the financial account of the U.S. balance of payments but also improved the accuracy of data on the U.S. international investment position.

This article highlights the two major initiatives jointly undertaken by the BEA, the U.S. Treasury, and the Federal Reserve Board and the revisions BEA has made to improve data coverage. This article is drawn from several papers, including (1) Milton Pappas, "United States Long-Term Portfolio Investment Abroad," *Treasury Bulletin*, Summer 1997; (2) Russell B. Scholl, "The International Investment Position," *Survey of Current Business*, July 1997; and (3) Christopher L. Bach, "U.S. International Transactions, Revised Estimates for 1974-96," *Survey of Current Business*, July 1997.

The New Benchmark Survey of U.S. Portfolio Investment Abroad

To improve the reliability, timeliness, and usefulness of information on the level of U.S. long-term portfolio investment abroad, the U.S. Treasury, in close consultation with the BEA, the Federal Reserve Board, the Federal Reserve Bank of New York, the Securities and Exchange Commission, other government agencies, and the financial community, recently undertook a benchmark survey of the magnitude and composition of U.S. ownership of foreign long-term securities.

The survey was formulated to collect as much detailed information as possible on individual foreign long-term securities—equity and long-term debt—owned by U.S. investors as of March 31, 1994. To ensure that the survey would be

comprehensive, the survey universe covered two groups—custodians and fund managers. Special efforts were made to avoid double-counting.

For the purposes of the survey, foreign long-term securities included all publicly traded and privately placed equity and long-term debt instruments issued by governments, corporations, other entities located outside the United States, and all international organizations. Equities included all common and preferred shares, subscription rights, and equity warrants. Long-term debt securities included all marketable interest-bearing or discounted bonds or notes, whose original term to maturity from date of issue exceeded one year. In addition, American depository receipts (ADRs) were considered foreign securities. Other depository receipts, such as global and international depository receipts, were also considered foreign securities, provided that the underlying securities were not issued by entities located in the United States.

In all, 3,344 custodians and fund managers participated in the survey. Yet more than 85 percent of the detailed data used to compile survey estimates was provided by less than 1 percent of the survey universe, primarily banks and brokerage firms operating as global custodians.

Survey Results

Preliminary estimates based on detailed data collected in the survey reveal that U.S. ownership of foreign long-term securities was \$870.3 billion as of March 31, 1994. Of this amount, \$566.7 billion, or 65.1 percent, was in the form of equities and \$303.7 billion, or 34.9 percent, was in the form of bonds. Of all the foreign equities owned by U.S. investors, about 23.3 percent, or \$132.3 billion, was in the form of American depository receipts (ADRs). With regard to foreign long-term debt, about 58.3 percent of all U.S.-owned foreign bonds, or \$177.1 billion, consisted of sovereign and foreign local government debt.

Approximately 94.1 percent of all foreign equities owned by U.S. investors, or \$533.3 billion, was in the form of ordinary shares; the remaining \$33.4 billion, or 5.9 percent, was in the form of preferred shares, equity warrants, or composite equities. Similarly, about 89.1 percent of all foreign long-term debt securities owned by U.S. investors, or \$270.5 billion, was in the form of ordinary debt; the remaining \$33.2 billion, or 10.9 percent, represented convertible, perpetual, zero-coupon, pooled asset-backed or composite instruments.

As of March 31, 1994, more than 85 percent of all U.S. portfolio investment in foreign equities was concentrated in thirteen countries and the grouped Caribbean banking centers of the Bahamas, Bermuda, the British West Indies, the Netherlands Antilles, and Panama. The two countries in which U.S. investors owned the most foreign equities were the United Kingdom and Japan. Together, U.S. ownership of British and Japanese equities represented 35.1 percent of all foreign equities owned by U.S. investors on the benchmark survey date.

Following the United Kingdom and Japan, the next three countries in which US investors owned the most foreign equities were Canada, the Netherlands, and Mexico.

United States

U.S. portfolio investment abroad concentrated in about a dozen countries

United States

U.S. investors most attracted to Japanese, U.K., Canadian securities

The most popular foreign long-term debt instruments owned by U.S. investors were issued by private and public entities in Canada. U.S. ownership of all types of long-term Canadian debt reached about \$68.5 billion on March 31, 1994. Following Canada and Japan, the next five countries in which U.S. investors owned the most foreign bonds were Germany, the United Kingdom, Italy, Mexico, and France.

By December 31, 1996, the level of United States portfolio investment in foreign long-term securities had reached \$1.1 trillion, compared to \$3.7 billion in May 1943. Moreover, U.S. ownership of foreign securities had become considerably more diversified both across countries and currencies since 1943. Based on the new survey data, no single country accounted for a disproportionate share of total U.S. holdings of foreign securities. The largest concentrations of U.S. portfolio investment in foreign securities were in Japan, with 15.1 percent of total holdings; the United Kingdom, with 13.7 percent; and Canada, with 12.4 percent.

The currency composition of U.S.-owned foreign debt has also become more diversified since 1943. The percentage share of US dollar-denominated foreign bonds owned by U.S. investors had declined to 47.9 percent by March 31, 1994; U.S. investors now hold foreign bonds denominated in a variety of foreign currencies. The most notable foreign currencies are the Japanese yen, with 10 percent of total holdings; the deutsche mark, with 7.2 percent; and the Canadian dollar, with 6.8 percent.

Data Revisions

As a result of the new benchmark survey, the BEA has revised historical data on the U.S. ownership of foreign long-term securities and incorporated these revisions in its year-end estimates of the nation's international investment position back to the mid-1980s. BEA has also used the survey results to amend its historical estimates of U.S. portfolio investment income from abroad and, therefore, its estimates of the U.S. current account balance and national income over the same time period.

U.S. international investment position. The recalibration of estimated market values of U.S.-owned foreign securities adds approximately \$301.9 billion and \$353.6 billion to the year-end estimated market values of U.S.-owned assets abroad in 1993 and 1994, respectively. This, in turn, suggests that year-end measures of U.S. net international investment positions for these two years would, on average, be \$327.8 billion higher than previously estimated.

U.S. current account balance and national income. At current market rates of return, estimates of U.S. dividend income from the ownership of foreign equities were roughly 80 percent higher in 1994 than previously estimated, adding approximately \$6.0 billion to the level of national income in 1994. Correspondingly, U.S. interest income from the ownership of foreign bonds was nearly 25 percent higher, adding about \$4.8 billion to the level of national income in 1994. The higher estimated values of U.S. investment income from abroad in 1994 consequently lowered the estimated U.S. current account deficit and raised estimated U.S. national income by about \$10.8 billion that year.

Estimates of U.S. Currency Flows

U.S. currency—particularly Federal Reserve notes—is widely held by foreigners. The currency is used for many of the same reasons as in the United States. It serves as a unit of account, a medium of exchange, and a store of value, especially when the purchasing power of the domestic currency is uncertain. As a safe asset in an unpredictable world, dollars flow into a country during periods of economic and political upheaval and sometimes remain there well after a crisis has subsided. In other situations, the dollar may circulate along with the domestic currency for extended time periods.

Although the amount of U.S. currency outstanding is known, the shares in domestic and in foreign circulation are notoriously difficult to measure accurately. For this reason, notwithstanding the growing importance of cross-border U.S. currency flows in the past two decades, estimates of U.S. currency flows have not been included in the U.S. balance of payments accounts or international investment position accounts. This difficulty is not surprising in view of the diverse channels through which currency may flow abroad, the destinations of the currency, and its varied uses.

Recently, however, the Federal Reserve Board's research staff completed a multi-year research project to measure such flows. The research uses pioneering approaches to the measurement of U.S. currency flows abroad by direct and indirect methods of estimation based on numerous statistical measurement techniques and multiple data sources. Major conclusions from the study were the following: The amount of U.S. currency going into domestic circulation each year has not varied much over the past two decades, while the amount of currency going abroad has risen strongly, particularly in the 1990s; consequently, the share of U.S. currency going into domestic circulation each year has substantially dropped over the past two decades, while the proportion going abroad has risen strongly; these same broad conclusions emerged regardless of which measurement technique or set of source data was used; and all measurement techniques identified the same periods of major accelerations and decelerations in net outflows of currency.³

After a review of all the methods of measurement, BEA, in close consultation with the Federal Reserve Board's research staff, developed a modification of one of the direct methods of measurement. It is this modification that has been used for BEA's new estimates of U.S. currency flows abroad.

The exact amount of such currency outflows is not known. As a proxy, the new estimates use total net disbursements of \$100 notes from the New York City and Los Angeles cash offices of the Federal Reserve district banks. Several characteristics of the circulation of U.S. currency support this approach to measurement and indicate that most of these notes flow to and from foreigners. First, mostly lower denomination notes (\$5, \$10, \$20, and \$50) circulate in the U.S. economy, whereas mostly \$100 notes circulate abroad. A 1995 survey of U.S. households found that they could account at most for only slightly more than 3 percent of total holdings of \$100 notes. Second, the shipment of \$100 notes from the New York City cash office is very large relative to the size of its district as measured by several economic variables, including its regional share of vault cash, population, income, and deposits. Third, the inclusion of the Los Angeles cash office is based on information that suggests that \$100 notes returned to the

United
States

*Amount of U.S.
currency abroad
has risen sharply in
1990s*

United States

Estimates of currency flows abroad now available

United States from abroad (largely from Asian countries) are shipped primarily to Los Angeles. From 1990 to 1996, the New York City and Los Angeles cash offices have placed on a net basis almost 84 percent of the \$142.7 billion increase in \$100 notes in circulation.

The proxy is known to be deficient in that it (1) excludes very small shipments of lower denomination notes sent abroad by these offices; (2) excludes very small shipments of \$100 notes sent abroad by other Federal Reserve cash offices; and (3) includes the very small amount of \$100 notes distributed within the U.S. economy. However, none of these deficiencies is thought to introduce major shortcomings to the proxy chosen.

The broad geographic areas to which U.S. currency has flowed in recent years are known. From 1988 to 1991, U.S. currency flowed first to Latin America, primarily to Argentina, and then to the rest of the world in response to the uncertainties created by the Persian Gulf War. In 1993 and 1994, conditions in Russia and other parts of the former Soviet Union led to large outflows to those areas. Net U.S. currency flows to Russia alone accounted for more than half of total net outflows of U.S. currency from 1994 to 1996. Additional outflows have been to the Middle East and Far East. Although net currency outflows tended to drop back after each of these surges, the general upward path of net currency flows abroad was found to be unmistakable.

Based on results of the research, BEA introduced quarterly estimates of net currency outflows into the U.S. balance of payments accounts for 1974–96, and the amounts held by foreigners, into the annual estimates of the U.S. international investment position accounts for 1973–96. At year-end 1973, BEA estimated that the value of U.S. currency held abroad was \$30.5 billion, or 49 percent of U.S. currency in circulation and held outside of the U.S. Treasury, Federal Reserve banks, and vaults of depository institutions. BEA estimated that by year-end 1996, U.S. currency held abroad had grown to \$209.6 billion, or 53 percent of the \$398.0 billion of U.S. currency in circulation. These newly introduced estimates of foreign holdings indicate that overseas demand for U.S. currency has grown considerably in the 1990s, in part as a result of economic and political upheavals in several areas.

The new measure of net currency outflows is believed to represent nearly all the currency transactions that occur through wholesale banking channels. Currency that flows abroad through other channels—through tourists, business persons, personal remittances, and U.S. military personnel stationed overseas—is not covered in this estimate. □

¹BEA is the agency responsible for compiling the U.S. balance of payments accounts.

²The last comprehensive benchmark survey of U.S. portfolio investment in foreign long-term securities was conducted in May 1943. The U.S. Treasury has regularly conducted benchmark surveys on foreigners' portfolio investment in United States since 1976.

³Porter, Richard D. and Ruth A. Judson, "The Location of U.S. Currency: How Much is Abroad?" *Federal Reserve Bulletin* (October 1996): 883-903. Similar empirical research and approaches to measurement were also applied to Germany; see Franz Seitz, *The Circulation of Deutsche Mark Abroad*, Economic Research Group of the Deutsche Bundesbank (May 1995). See also Douglas B. Weinberg, "U.S. International Transactions, Second Quarter 1996," Survey 76 (October 1996): 99-100.

Recording “Shuttle Trade”—The Cases of Germany and Russia

Commercial enterprises normally are associated with the export and import of goods. To some extent, however, individuals also are involved in cross-border transactions of goods. Travelers may buy goods abroad for their own use or sale at home. They may purchase “big ticket items” such as cars in a neighboring country. Some may sell goods abroad from their personal belongings if there are markets for them, for example, used cars and antiques. Guest workers may take gifts such as television sets and refrigerators with them when they visit relatives in their home countries. People living near borders regularly buy goods in neighboring countries because the goods are offered at lower prices, can be procured more conveniently, or include better service than that provided by domestic shops. Still others may sell agricultural and other goods on a small scale across the border. In addition, seasonal workers may transfer part of their wages in the form of goods and carry the goods across the border when they visit their home countries. Similarly, individuals working across a border (border workers) might take goods from their country of employment into their home country.

Normally, the volume of goods that individuals take across a border is negligible compared with that of commercial trade. In recent years, in some parts of the world, some forms of cross-border movement of goods by individuals are becoming important in volume and in value. These transactions involve travelers’ purchases of goods for resale in their home countries and purchases of goods in their home countries for resale abroad (so-called “shuttle trade”) and individuals’ cross-border purchases of goods for personal use (so-called “border trade”). “Shuttle trade” and “border trade” tend to be prevalent where there are substantial cross border price differences. High customs levies in one country may create special purchasing opportunities in a neighboring country. Import restrictions in one country may induce such “unofficial” trade in goods by individuals. Foreign exchange restrictions may promote such individuals’ cross-border trade: people take goods (personal belongings or products of their gardens) beyond the borders, sell them, and buy articles that in their own country are unavailable or available only at higher prices. Unrealistic official exchange rates may also induce guest workers to take goods into their home countries for sale, instead of returning home with the foreign currency. The more these conditions prevail, the greater the likelihood that “shuttle trade” and “border trade” will take place.

The emergence of “shuttle trade” and “border trade” has raised conceptual and practical issues for balance of payments compilation. From a conceptual point of view, these forms of trade have blurred the distinction between “trade in goods” and “travel.” While the fifth edition of the Balance of Payments Manual (BPM5) clearly defines trade in goods as involving commercial activity, and travel as involving the acquisition of goods and services by travelers for personal use, a number of borderline activities have become difficult to classify. For example, how should compilers classify goods acquired in bulk by travelers for friends and relatives for which they are compensated? In addition, what is the analytical usefulness of travel data that include significant purchases of goods by individuals who engage in “border trade”?

From a practical reporting viewpoint, the growth of “shuttle trade” and “border trade” has created data collection problems. For various reasons, these transactions generally are difficult to capture. In some cases, they are illegal or intended to avoid customs

Germany and Russia

duties. As a result, individuals involved will be reluctant to provide information for statistical or other purposes. In other cases, the transactions are conducted in cash. In still other borderline cases, they are difficult to identify. Unrecorded "shuttle trade" and "border trade" in countries have affected the accuracy of the current account of their balance of payments; when the financing of such trade is indirectly reflected in the financial account, errors and omissions will result.

Some of these issues are discussed in two papers recently prepared separately by the Deutsche Bundesbank on "The Recording of Shuttle Trade in Balance of Payments Statistics,"¹ and by the International Monetary Department of the Central Bank of the Russian Federation on "Problems of Shuttle Trade in Balance of Payments Statistics: the Case of Russia." The remainder of this article presents conceptual and practical issues raised in the Deutsche Bundesbank's paper. Two text boxes accompany this article. They describe the methods German and Russian compilers use to estimate cross-border movement of goods by individuals, as discussed in the two papers.

Conceptual Issues

The fifth edition of the *IMF Balance of Payments Manual (BPM5)* states that "All goods and service acquired by travelers from the economies in which they are traveling and for their own use are recorded under travel" (par. 250). Travelers in this context are "tourists, that is those travelers who spend at least one night in the country visited, and same-day travelers or excursionists, that is, those who stay less than twenty-four hours and do not remain overnight" (par. 243). Seasonal border workers are also included (par. 243).

BPM5 further states that goods to be recorded under travel are articles bought and consumed within the economy visited as well as "gifts, souvenirs, and articles (irrespective of value) purchased for travelers' own uses and taken out of the economies visited" (par. 251).

The wording "articles (irrespective of value)" raises some questions. Should the purchase of a car or the acquisition of a valuable painting by an individual during a one-day trip be recorded under travel? The case of the car is mentioned in the *IMF Balance of Payments Compilation Guide*. It states that the purchase of a car acquired during travel in a foreign country should be recorded under travel expenses.

The *BPM5* specifies that all goods purchased by travelers for their own use should be recorded under travel. Nonetheless, there are cases that require clarification. If a traveler buys a personal computer for his business while on a private trip, are these expenditures still considered travel expenses? He may also acquire goods for his relatives and friends. If these articles are to be gifts, the purchase of these goods should be recorded under travel. The case looks different and should be treated under "trade in goods" if a traveler buys goods in bulk for his neighbors, friends, or others and they compensate him, perhaps even for his expenses or transportation expense. The same should apply if a seasonal worker buys a refrigerator and then sells it in his home country.

A case in point is that, after the opening of Germany's borders with the former Eastern Bloc countries, a stream of private individuals entered Germany to sell goods in the streets or in the flea-markets. Should these activities have been

recorded as a debit entry under travel receipts in the German balance of payments and a credit entry under travel expenditure in the balance of payments of the Eastern European countries? One might have been inclined to record such trade under travel if one had considered the use of the sales proceeds by the flea-market proprietors; quite often, they bought goods in Germany for their own use. However, they might sell goods acquired in Germany on markets in their home countries. In this case, the sales and purchases of goods in Germany might more appropriately be recorded as merchandise trade.

Practical Issues

In principle, the following methods could be applied to collect information on cross-border movement of goods by individuals:

- Reporting at the border. Statistical reporting could be linked to customs controls. As far as imports are concerned, reports most probably would not be comprehensive, especially if travelers tried to avoid customs duties or if there were thresholds for small transactions. As for exports (goods purchased by foreign travelers), customs controls are quite often non-existent. In some countries, however, foreign travelers are refunded the local turnover tax when they leave the country. Statistical recording could be linked to this refunding.
- Data could be derived from surveys of travelers at the border. Again, the success of this method would depend on the willingness of the travelers to report their purchases, which might be underreported for tax (customs) considerations. Generally, collecting data from travelers at the border hampers cross-border traffic and is only practicable if cross-border traffic is limited. Under these circumstances, traveler trade is most probably negligible. As far as borders between most European countries are concerned, successful and comprehensive collection of data is not feasible any longer due to practically non-existing border controls and heavy traffic.
- Estimates based on the number of travelers. It might be easier and more promising to collect information on the number of travelers crossing the border and to estimate, on the basis of occasional sample surveys, the volume and value of goods they carry. This method might lead to reliable results if the composition of the group “travelers” was homogeneous and did not change over time, at least in the short run.
- Sample surveys of households. Sampling cannot easily provide information on all features of traveler trade. Surveys conducted by phone can only be representative if a very high percentage of the population can be contacted in this way. Such surveys may also be unreliable, as people may not be able or willing to give details on shuttle trade activities by phone. A better method could be “household accounting,” although building a statistically significant sample would be costly.

- Means of payments used in international travel. In some collection and compilation systems, the recording of travel receipts and expenditures is based on receipts and payments used in international travel. Domestic banks are required to report such activities. Nevertheless, transactions without payments are not recorded. These might include the transfer of goods by guest workers to their families at home and the activities of flea-market proprietors who take goods to neighboring countries and sell them in order to buy other goods.

Recording “Shuttle Trade” in Balance of Payments Accounts:

Following the foreign trade liberalization in 1993, thousands of small and medium-size private enterprises and individual traders (known as “shuttle” traders) began operating in foreign markets. They were allowed to bring into the country \$2,000 worth of goods duty free. New retail trade channels emerged in the domestic consumer goods market, creating a more competitive environment. Statistics for 1994 indicate that in that year, about one quarter of all purchases made by Russians on the home market was imported by “shuttle” traders.

Russia’s “shuttle trade” business, largely established in 1993–1994, entered a new phase of its development in 1995. The “shuttle trade” became more stable; “shuttle” traders determined their main supplier countries. They also established long-term ties to foreign manufacturers. Transport organizations came to service the “shuttle trade” on a more regular basis, and customs clearances became so liberal that these traders were not required to fill in customs declarations. This stability in the “shuttle trade” resulted in the establishment of a great number of officially registered corporations specializing in the sale of products imported by “shuttle” traders, who continued to deliver imports as unaccompanied cargoes without filing freight customs declarations. Also facilitating the expansion of the “shuttle” business was a provision, enacted in August 1996, allowing the duty-free import of goods to Russia of \$1,000 or less in value.

The Russian authorities first adopted a method for estimating the extent of “shuttle trade” for the purposes of balance of payments that employed the following simple elements:

- A list of non-Commonwealth of Independent States (CIS) countries’ “shuttle” traders who most frequently visited was drawn up;
- The number of “shuttle” trips was estimated on the basis of data provided by the State Border Service;
- The median value of goods imported duty free on each “shuttle” trip was assumed to be \$2,000.
- The overall volume of “shuttle” imports was calculated as the product of the median value multiplied by the number of “shuttle” trips. Imports from the CIS countries were calculated in the same way, with the median value determined on the basis of sample surveys of “shuttle” traders.

In 1995, the Bank of Russia had to abandon this simple method because the State Border Service data were seen as inadequate for determining the actual number of “shuttle” trips because the number of tourists had increased significantly.

The Russian authorities then adopted a second method for estimating the “shuttle trade.” It took into account the fact that the majority of “shuttle traders” procure their merchandise on the commodity and mixed (commodity and food) markets. The State Statistical Committee had satisfactory information about the value of commodities sold.

Whatever method of collecting or estimating data on traveler trade is chosen, compilers must see to it that double counting is avoided. A portion of traveler trade might already be included in foreign trade statistics or data collection on travel might cover part of traveler trade. This especially applies to travel statistics derived from the bank reporting system. □

¹The paper expressed the personal view of Rudolf Seiler, head of the Deutsche Bundesbank's Balance of Payments Statistics Division.

Germany and Russia

The Russian Case¹

Presumably, the imports sold on the markets could be divided into three main groups:

- Products imported from non-CIS countries;
- Products imported from CIS countries;
- Products largely of domestic manufacture but represented as imports from non-CIS countries because they were assembled from components imported by “shuttle” traders.

The authorities determined the proportions of these groups on the basis of the commodity structure of the retail sales in the markets.

The value of the imports in f.o.b. prices in U.S. dollars was estimated for each group on the basis of the import efficiency ratios, which take into account the average value of transactions, transportation surcharges, costs, and “shuttle” traders’ “remuneration of labor.”

A study of current statistics and mass media reports from 1996 showed that the commodities “shuttle” traders imported were widely sold both by private firms and by official trading enterprises.

Thus, in order to estimate unregistered imports for 1996, the authorities initially determined the overall volume of sales of such commodities on the commodity and mixed markets and through retail shops.

In addition, commodity imports in the “coverage adjustment” item of the 1996 balance of payments included data on the value of cars individuals brought into Russia.

The overall size of unregistered imports included in the “coverage adjustment” in 1996 exceeded \$20 billion, which represented about 30 percent of all commodity imports recorded in Russia’s balance of payments.

At present, the Russian Government is taking a series of measures to tighten customs control, and the State Customs Committee is attempting closely to monitor the imports of commodities and cars by individuals. In addition, economic results from the first half of 1997 show that the decline in the Russian economy has ceased, that the inflation rate has fallen significantly, and that domestic demand for non-food products has decreased. There is reason to believe that these trends may eventually lead to a reduction in unregistered imports. Nonetheless, as of the first quarter of 1997, sizable volumes of “shuttle trade” have persisted.

¹This is based on the paper “Problems of Shuttle Trade in Balance of Payments Statistics: The Case of Russia,” prepared by the International Monetary Department of the Central Bank of the Russian Federation, October 1997.

Recording Cross-Border Movement of Goods by Individuals: The German Experience

Travel is a major item in Germany's balance of payments. Consequently, Germany has experienced nearly all types of "travel trade."

- Discrepancies between prices of consumer goods in Germany and neighboring countries often have led to brisk border trade. At present, due to the strong Swiss-franc, Swiss citizens purchase consumer goods in Germany. The German population living near the Netherlands has long purchased goods there.
- Cars are bought and sold¹ by German private individuals in neighboring countries. The same applies to foreign travelers in Germany. The volume of these transactions changes in response to the pricing policies of the automobile factories in neighboring countries.
- Guest workers in Germany (considered as German residents in balance of payments statistics) take durable consumer goods for their relatives with them on their occasional visits to their home countries.
- Border and seasonal workers formerly took durable goods and cars to their home countries. Seasonal workers seem now to rely more on money transfers (DM-notes).
- Flea market activities were brisk immediately after the opening of the eastern borders. They have decreased over the past few years.

The recording of travel expenses and receipts in the German balance of payments is mainly based on data on means of payments used in international travel. The data are provided by German banks and, in part, by foreign central banks (purchase and sales of DM notes). They generally include information on means of payments used for travel trade. The German travel account covers purchases and sales¹ of goods by travelers as recommended by the *BPM5*.²

Nevertheless, the following deficiencies and gaps may exist:

- Transfers of goods without payment are not considered.
- Means of payment, especially cash, used for international travel are only reported when they arise in the banking sector. As a result, not all transactions are covered. For example, a seasonal worker may take his salary in cash to his home country. He may pay for services or purchases at home using his DM-notes. The receiver may buy goods in Germany.
- There may also be some double counting. According to German regulations, even travelers have to report exports to and imports from countries outside the European Union if the value of the goods exceeds DM 3,000. Reports have to be submitted to customs at the border. It is left to the judgment of the customs officers whether they require the submission of a reporting form. In general, controls are stricter for imports than for exports. If reported, a transaction might be recorded twice: in merchandise trade statistics (the basis of the merchandise account of the balance payments) and in the travel account.

¹Sales are not included in "travel" in *BPM5*. Only "acquisitions" are included.

²Before the introduction of the *BPM5*, means of payments used for border trade were estimated and excluded from the calculation of travel expenditure and receipts. They were placed in the merchandise trade account.