

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENT STATISTICS

THE MEASUREMENT OF INTERNATIONAL TRANSACTIONS IN THE EUROPEAN CONTEXT IN 7 – 10 YEARS TIME

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BALANCE OF PAYMENTS “VISION”

1 EXECUTIVE SUMMARY

- There is wide recognition of the need to reconsider the way international transactions are measured and compiled at the European level.
- There is a general call for improved quality of BoP data at the national, and especially at the European level, to meet users needs.
- There is a growing demand for coherent economic accounts (covering BoP and national accounts) at the European level.
- In the context of international negotiations (e.g. GATS) there is also an increasing request for detailed figures on international trade in services statistics.
- CMFB has begun a study to see how asymmetries at the European level might be removed, and this is being actively pursued.
- *At the European level* the demand for intra-MU flows is likely to decrease over the next few years, though information will still be required by member states for the compilation of their national accounts and balance of payments.
- From this perspective, the European Intrastat legislation might be simplified, taking into account national needs.
- National collection systems are not expected to be harmonised in the next few years.
- Systems should however continue to be studied, with the aim of identifying best practice, and encouraging consistent approaches.
- Ways of collecting quarterly/annual balance of payments alongside national accounts data should be studied by a task force.
- Beyond any changes to Intrastat, and any ECB plans for regulation on data suppliers, no changes to statistical legislation for international transactions are envisaged.

2 WHY WE NEED BALANCE OF PAYMENTS AT THE EUROPEAN LEVEL

2.1 Even for an area as large as the euro area balance of payments and IIP statistics are important to policy-makers from various perspectives. Exports represent a significant component to demand, and imports satisfy a sizeable part of domestic, euro area-wide supply, broadly speaking, the balance on current account corresponds to the difference between domestic saving and

investment, and thus the balance in markets for goods and services. The current account (together with capital transfers etc.) must necessarily be matched by the totality of financial account transactions, the composition of which may however indicate balance or disequilibrium elsewhere, and influence domestic monetary conditions. Thus the current account and the financial account of the non-monetary sectors may indicate the balance between investment and planned saving. Large fluctuations – reflecting the external influence on money, in turn corresponding to the net external position of the banking system and the monetary authority – may suggest a disequilibrium here which in turn indicates a monetary disequilibrium in the domestic economy, and hence possible disturbances as economic agents try to eliminate it. Sizeable movements in official reserves indicate disequilibrium in the foreign exchange market at the prevailing exchange rate. Finally, estimates of the international investment position, viewed in isolation or in the context of a wider balance sheet, may indicate how sustainable the current rate and composition of flows is likely to be.

2.2 These considerations bear on prospects for inflation and are relevant to the Eurosystem's monetary policy strategy. Reliable data on the BoP and IIP which – at least for quarterly and annual data – fit within a broader framework of economic and financial accounts, are therefore important for monetary and wider policy purposes.

(Analytical aspects of BoP are discussed in more detail in the annex)

3 THE NEED FOR CHANGE

3.1 There is general acceptance by macro-economic statisticians that there is a need to improve the quality of our balance of payments (and other international transactions) data systems. There is a particular need to improve quality of the statistics at the European level to support decision makers in the European Institutions.

3.2 There is also a recognition that changes are necessary in the way in which BoP data are collected.

3.3 One of the most important reasons for this is the start of Stage 3 of EMU. This has changed the approach to intra MU transactions. The ECB has already indicated that it is concerned with extra MU BOP, and not intra. There are signs that respondents are questioning the need to report transactions between residents of member states of the Monetary Union in particular, putting at risk the setting-up of national balances of payments. Compilers are concerned that the quality of data will gradually decay. Even if changes are not introduced into the system straight away, there is a recognition that we have to start thinking about how changes will be made over the next few years. We may even have to make contingency plans in case the erosion to data quality is faster than we expect. The introduction of Euro notes and coins in 2002 will add a further challenge to many BoP data sources.

3.4 Moreover, there is a general concern about the quality of data on international transactions. Financial markets are now truly global, very large in

terms of turnover, and extremely complex. It is unclear whether our systems remain capable of keeping pace with these developments.

3.5 Thirdly, there is an emerging view that policy makers are looking for consistent sets of economic data both at the European and the national level. Our collection and compilation systems tend to provide a range of inconsistencies and asymmetries. It is the role of statisticians to address these and to provide the policy makers with a coherent set of data.

3.6 On the other hand, any changes introduced should not disrupt balance of payments information needed at the national level to produce member states' economic accounts – national accounts and balance of payments.

3.7 The following chapters begin the process of discussing the various ways in which systems might change over the next 5-10 years, in order to meet the changing needs of users, and attitudes of suppliers. It begins with a chapter on the creation of consistent accounts at the European level, a topic that has received little attention until now.

4 ECONOMIC ACCOUNTS AT THE EUROPEAN LEVEL

(This section relates to quarterly/annual accounts. Monthly balance of payments accounts for the Euro area are prepared by ECB, but there are no monthly national accounts produced at the European level)

4.1 The Commission, representing the whole of the EU, needs to produce economic accounts of the EU15. Both ECB and the Commission, need to produce a single set of accounts for EUR11. Their aim must be to compile and publish consistent and coherent accounts. There should be an expectation that both EU15 and EUR11 accounts are internally consistent; and that the two sets of accounts are (largely) consistent with one another.

4.2 It would be an added bonus if these accounts were also entirely consistent with the sum of member states' accounts. However, as all national accountants know, the task of eliminating all discrepancies from national economic accounts is a significant undertaking. To create a set of EU15, EUR11 and 15 member states' accounts that is entirely coherent, although an essential long term aim, is probably an impossible task in the foreseeable future. To do so would almost certainly require member states to make adjustments to their accounts that they would find unacceptable.

4.3 The current European approach is to measure EU15 and EUR11 balance of payments by summing the extra transactions of the 15/11 member states; and EU15 and EUR11 GNP/GDP by summing the GNP/GDP of the 15/11 member states. This creates an inconsistency at the European level in net exports of goods, services and income. The inconsistency can be clearly seen in, for example, a comparison of the BoP current account where net exports are based solely on extra-flows, and the expenditure breakdown of GDP, where net exports are based on the sum of extra and intra flows.

4.4 This approach may be an acceptable short-term expediency. It cannot survive in the long term. Coherence at the EU15 and EUR11 is an essential characteristic of European accounts, which should be compiled as the most appropriate for the area covered. We therefore recommend that the creation of such sets of accounts should accept discrepancies between these and the sum of member states' accounts. There would essentially be a decoupling of European and member states' accounts.

4.5 Any decoupling between European aggregates and the sum of national aggregates is similarly unacceptable in the long term. The only way we can see of moving in the direction of total consistency, is to develop, over time, a system of feedback of adjustments from coherent European accounts to member states. If MSs show a willingness to take into account the implied adjustments to their accounts the discrepancies should, over time, reduce, and may even disappear. However, in this process, the quality, consistency of national data sets must also be preserved in the interest of national users.

4.6 We see these requirements being approached in a phased way. First, to see how asymmetries can be addressed at the European level; then to see whether such changes can be fed back and used at member state level. Already the first phase has begun. An experimental exercise is being carried out by a group of experts (BoP, national accounts and trade statisticians) to eliminate all discrepancies from a set of European economic accounts for one to three past years. (The approach being adopted is to start with BoP accounts, particularly trade, and then to expand into national accounts later). It will be necessary to search for procedures (or methods) to identify and to correct for the asymmetries. Convincing methods will need to be found before amendments are made to conventional methods of producing published estimates of BoP and GDP at EU11, EUR15 or national levels.

4.7 The aim is to complete this first phase of the exercise, on an experimental basis by the end of 1999. The adjustments made should be fed back to national compilers (again on an experimental basis) to see whether they could be used in their own compilation process to aid balance in member states' accounts. If successful, this iterative process should be undertaken for other periods to see whether any patterns emerge. We recommend that this exercise be pursued vigorously. Member states should be encouraged to play a co-operative part in striving for the goal of overall coherence.

4.8 In the longer term, such a process of compiling timely coherent European accounts should become a routine and regular process. Clear responsibilities for this task would need to be agreed. Because of the feedback between accounts at the European and member state level, it may be difficult to give sole responsibility to the European institutions; member states may need to be involved. One radical way in which this task could be undertaken would be by a European Economic Accounts Commission, pulling together Eurostat, ECB, member states, and perhaps outside experts. This Commission's task would be to produce the best coherent accounts for the European areas.

5 LIKELY NEEDS AT EUROPEAN LEVEL IN 7 YEARS' TIME

5.1 This chapter is an attempt to identify what international transactions data will be needed at the European level to need in 7 years' time. The expectation of CMFB members, following extensive discussions, are shown in the attached matrix. This shows, for key users (ECB, Commission, IMF and national accountants; researchers and policy makers), the expected needs for monthly, quarterly and annual data. It distinguishes between intra-MU and extra-MU flows, and expresses what we believe will be needed in terms of outputs.

5.2 The matrix tends to show that the needs for extra-MU data in 7 years' time are expected to be little changed from today's needs. The big changes, as might be expected, are on intra-MU transactions. The following three sections discuss, in more detail, these expected needs for extra- and intra-MU data, and for data from non-MUMS.

(i) Extra-MU data

5.3 The expectation is that there will be a need for considerable improvement in timeliness. Monthly key items should be available to ECB within 6 weeks; we should aim to improve timeliness and make quarterly data available to users within 2 months, and annual data within 3 months. These would be demanding targets.

5.4 Our main concern for extra MU data is that quality should be improved in all areas (with the exception of goods where quality is considered to be acceptable). Systems should be improved; revisions reduced; coverage extended; further adherence to international guidelines etc. This is not an easy matter to deliver, but without a drive towards quality, and with rapidly evolving financial markets and trading practices becoming more complex, there is a real risk that quality will deteriorate. (see chapter 8 on Quality)

Goods

5.5 On a monthly basis, it is expected that ECB will still need data in aggregate. There is a need to speed up its delivery to meet the ECB's requirement of 6 weeks. Quarterly and annual data will be needed in sufficient detail to allow calculation of volume and price movement and deflation within national accounts. They will also be needed at geographical level 2 for further analysis. (Other users, such as customs and revenue departments will need goods data in much more detail for tariff purposes)

Services

5.6 ECB is expected to need an aggregated services figure on a monthly basis, and within 6 weeks. Quarterly and annual data will be required at IMF standard component level (as a minimum), and with the same geographical detail as for goods. The service activities play an increasing role in the national economy and in international transactions. In this perspective, there is a growing demand for reliable and detailed figures for international trade in services, especially in the context of the negotiations of the General

Agreement on Trade in Services (GATS). Despite other sources for specific service activities, BOP data constitute a coherent set of information; quality improvements as well as adaptations of the product classification are requested. The Commission is likely to continue to need annual services data disaggregated by product and country in even more detail for GATS negotiations.

Income and transfers

5.7 Monthly data required within 6 weeks, in aggregate, for ECB. Quarterly and annual, IMF components, with some geographical split as for goods and services.

Other international transactions

5.8 Monthly key items, not necessarily to international guideline definitions, needed by ECB within 6 weeks. Quarterly and annual detail as for goods, services and income.

International investment position (IIP)

5.9 IIP will be required on a quarterly and annual basis both for the Institutions' uses and for national accounts (ESA). Monthly data will not be required.

(ii) *Intra MU data*

5.10 The matrix reflects that the transition to stage 3 of EMU is raising key questions about the perception and needs for data on intra-MU transactions. Our expectation is that, for macro-economic surveillance, in 7 years' time, EU institutions will have little direct need for intra MU data at the European level. On the other hand, these institutions will need data to analyse the integration process. They will also continue to need member states to produce estimates of national GDP and GNP (for 4th resource purposes). Intra-MU data will be needed for compilation and deflation of expenditure components of GDP. Moreover, member states will need the data for compiling their national balance of payments.

5.11 The expectation is that over the years, transactions between MUMS will be increasingly viewed at the European level (and probably by the transactors themselves), as domestic transactions; and in 7 years' time, they could be treated indistinguishably. This raises the question of whether they could become subject to European legislation (if any) on output/sales data rather than on international transactions. At the national level, they will continue to be treated as international transactions and be included in the national and financial accounts as such. There may therefore be some conflict between the needs of European institutions and those of some member states. Under the principle of subsidiarity, it must be left for member states to decide what they need for their own uses. The need for European legislation (eg. Intrastat) for macro-economic purposes is likely to decrease (see chapter 6).

Goods and services

5.12 Although effective in some countries, INTRASTAT is widely considered to be burdensome and, at the European level, of inadequate quality. Coupled with the declining needs for these European statistics, this leads us to expect a reduction in the frequency and detail of INTRASTAT. (If/when the definitive VAT system is introduced, we shall have no choice but to find an alternative to INTRASTAT.)

5.13 It is not expected that monthly information on intra-MU goods and services flows will be required for European macro-economic purposes. Some MSs may need it for providing early estimates of quarterly national accounts and for their own macro-economic purposes, but this need would be reduced if quarterly data could be provided within 2 months. Data will be required at a quarterly level, with sufficient detail to allow MSs to deflate national accounts. Similarly, annual data will be needed for GNP and deflation purposes, possibly in a little more detail than quarterly. (see also chapter 6 on INTRASTAT)

Income

5.14 Intra-MU income flows will not be required on a monthly basis *at European level*. They will be required on a quarterly and annual basis at sufficient detail to allow compilation of GNP for Fourth Resource purposes.

Financial flows and stocks (IIP)

5.15 No data will be required monthly *at European level*. Apart from foreign direct investment, on a quarterly and annual basis, we see no need at the European level for these statistics. However, European institutions and member states will continue to need quarterly and annual national financial accounts and balance sheets (IIP). Banks' balance sheets will be needed nationally for monetary policy and supervision purposes – on a monthly basis for larger banks. These are largely matters for individual member states, but they could be needed at the European level too for macro prudential purposes. (Whatever the demands for these data, it has to be recognised that there are major difficulties in getting reliable geographical breakdowns of the figures needed for high quality data sets.)

(iii) MUMS to/from non-MUMS data flows

5.16 At any point in time in the next 10-20 years, the EU is likely to include both members and non-members of the Monetary Union. For BoP (etc) purposes, both parties should treat transactions between members and non-members as extra-transactions. Statistical systems are currently determined by EU-wide legislation, which might need to be amended to enable different treatment of MUMS and non-MUMS, as statistical categories.

6 INTRASTAT

6.1 Intrastat, the system for collecting trade in goods between the 15 EU partners, raises special concerns.

6.2 It was introduced in 1993 as part of the Single Market legislation. It is seen by many as expensive both for respondents and compilers. It is frequent (monthly) and very detailed (over 10,000 products). Its quality is questioned because of the large discrepancies in mirror statistics (even at the aggregate level, where intra EU exports exceed imports by over 5 per cent!). It is one of the very few pieces of EU statistical legislation that specifies in some considerable detail, the collection system (the inputs) rather than just the outputs.

6.3 However, it is a product that is in great demand by a large number of different users. At the national level, it is used by balance of payments and national accounts compilers, and by numerous businesses and their representatives. At the European level, it is used by various Commission DGs in monitoring the operation of the single market.

6.4 In chapter 5, we have argued that intra-MU trade data are likely to become less significant for economic surveillance at the European level. Similarly, it is not part of the European balance of payments. It can only be part of the European-wide set of economic accounts to the extent that discrepancies in Intrastat spill over into other expenditure components. For example, if part of the error in intra-trade is caused by misclassification between intra- and extra-trade, then we need to study Intrastat discrepancies further.

6.5 One argument put forward by macro-economic statisticians for the retention of the frequency and detail of Intrastat is that some member states need these for early estimates of GDP and for deflation. However, there are also a number of member states that need neither the frequency nor detail for their economic accounts. Although the Commission requires good estimates of both GDP and GNP, the argument for retaining legislation to oblige countries to collect with such frequency and detail for the purposes of national economic accounts cannot be sustained. (There is, for example, no legislation requiring the same frequency and detail of consumers' expenditure and gross fixed capital formation which are equally important in the estimation of GNP/GDP and their growth.)

6.6 We therefore recommend simplification of the Intrastat legislation. This could involve lower frequency, less product detail, or more radical changes such as single flow or use of sample surveys. Under the principle of subsidiarity, it should be left to member states to collect more detail if they need it for their domestic purposes (though, simplifying legislation for European purposes would not make it easy to collect more detail at the national level.).

6.7 Unfortunately, macro-economic statisticians cannot deliver such changes without the support of others. Changes to the Intrastat legislation require the co-operation of finance ministries, customs, trade departments, EU commission departments, businesses as well as statisticians.

7 COLLECTION SYSTEMS

7.1 All member states strive to collect and compile their balance of payments, (and other) accounts in accordance with international guidelines (BPM5, SNA and ESA). Even so, collection systems have, in other respects, developed to suit national circumstances. Member States have tended to draw back from adopting a common system because of the fear of the costs of change in their country; because of the wish to legislate in terms of outputs rather than inputs; because of the disappointing experience of Intrastat and because, even after all the debate, there has been little convergence on one approach.

7.2 Earlier sections of this report have distinguished between the necessary features of monthly balance of payment statistics (quick results; high level of aggregation) and quarterly/annual balance of payment statistics (timeliness important, but slower production acceptable; more detail; consistency with economic and financial accounts). While there is not the will to go for a common collection system in the immediate future, systems should nevertheless be encouraged to develop in a way that ensures consistent outputs over a period of years, reflecting the differing features of data at different frequencies. It seems likely that monthly data will continue to be collected predominantly from banking sources. However, for quarterly and annual data (including data on cross-border transactions within the euro area), we recommend that serious study should begin on the ways in which balance of payments and national accounts data might be collected alongside each other.

7.3 Such an approach would help in the drive towards coherence discussed in chapter 4, and could lead to some gains in efficiency in member states' collection systems. A task force (possibly based on the Direct Reporting Technical Group) should be set up under the auspices of CMFB (representing Eurostat, ECB, NCBs, and NSIs) should develop guidelines for both monthly and quarterly/annual systems, and find examples of best practice. (Any guidelines would of course be consistent with existing international guidelines). In this way, member states can develop their collection systems (and maybe even their compilation systems) over the years towards more consistent systems.

7.4 Respondent burden will always be a factor that we need to take into account when considering new or revised collection systems. The introduction of Euro notes and coins in 2002 will also need to be factored into these discussions.

7.5 The European Banking Federation (EBF) has made several simplification proposals with regard to BOP reporting recently. The objective is an improvement of the performance and the smooth functioning of the direct reporting procedures in the EU and a reduction of costs for banks and bank

customers. The EBF has proposed the following changes for the shorter term (I) Harmonisation of codification, resulting in limiting data entry operations; (ii) Simplified notification implying a common threshold for simplified notification for small payments; and (iii) Unilateral reporting. Apart from the two proposed changes mentioned first, the idea of unilateral reporting is an interesting proposal, which deserves special attention via study of its pros and cons. Unilateral reporting implies that eg. only debits are collected as source of information by BOP compilers, and via exchange of information with partner countries, information on credits can be acquired (or vice versa). Unilateral reporting may function as a first step towards more harmonised collection systems in the longer term.

7.6 The existing Technical Group of the CMFB/BOP WP involved in these issues should study the simplification proposals of the EBF and report to the CMFB in January 2000 its opinion on the feasibility of the EBF simplification proposals, comprising among others the subject of unilateral reporting.

8 QUALITY

8.1 Quality of BoP statistics has to be a central and continuing theme, both at the national and EU level. It is a worldwide concern. The EFC report emphasised that the improvement of the quality of the statistics should be a top priority. Scarce resources should be directed towards quality improvement, if necessary at the expense of retaining the detail or improving the periodicity of the statistics. Again this reflects the consensus view of BoP statisticians around the world. The discussion in Chapter 6 on Intrastat is a good example where released resources previously allocated to producing frequent, detailed statistics could be used to improve the quality of estimates elsewhere, eg trade in services.

8.2 The vision for EU-level BoP aggregates is that high quality statistics are published to a pre-release dissemination calendar which meet fully international standards (eg SDDS). Metadata describing the statistics produced, methodologies used, data sources and dissemination arrangements will be readily available to all users. The quality of the main BoP components should be assessed in a quantified way and published. The assessment should be based on statistical analysis wherever appropriate, eg sampling error calculations, non-response bias, grossing methodology. Regular revision analyses should also be published showing clearly the size and direction of revisions.

8.3 Quality is an area of BoP statistics that has received a surprisingly limited amount of attention at the European level. This vision argues for this to change dramatically over the next few years.

9 LEGISLATION

9.1 While there are several Council and Commission Regulations concerning trade in goods (within and outside the Community) and the carriage of goods, there is no other Council or Commission legislation concerning the balance of payments as such except a Directive on collection

of statistical information on tourism (2995). The ECB has issued Guidelines (addressed to central banks) and a Recommendation (addressed to other authorities responsible for balance of payment statistics at national level) setting out its requirements for balance of payment and international investment position statistics. The ECB intends to prepare a Regulation imposing reporting obligations directly on economic agents with cross-border transactions or positions, these at present being the subject of national legislation which is uneven in its coverage and incidence. We do not see a need for any legislation beyond this to specify either outputs or inputs for balance of payments and other international transactions.

9.2 The case has been made by statisticians and policy makers in the macro-economic area at the European level for less detail and frequency in the Intrastat legislation. The support of a much wider group of users is required to deliver this simplification.

9.3 Legislation might have to be amended to enable measurement of MUMS/non-MUMS transactions (see chapter 5).

ANNEX

ANALYTICAL ASPECTS OF THE BALANCE OF PAYMENTS

Introduction

1. The balance of payments is a statistical statement that systematically summarises, for a specific time period, the transactions of an economy with the rest of the world. The transactions to be analysed can either be flows on the current account of the balance of payments (comprising transactions involving merchandise, services, income and current transfers), or in the capital account, or movements in the financial account (concerning mainly changes in financial claims on, and liabilities to, the rest of the world). Financial transactions consist on the one hand of transactions such as direct investment, portfolio investment and other investment and on the other hand of transactions in reserve assets. One could say that from the perspective of the change in reserve assets, the balance of payments offers an overview of the causes (in statistical terms) of change of the latter position. Closely related to the flow-oriented balance of payments framework is the stock-oriented international investment position (IIP). The IIP is a statistical statement, compiled at a specific date, of the value and composition of the stock of an economy's claims on the rest of the world on the one hand, and of an economy's liabilities to the rest of the world on the other hand.

Current account

2. The current account embodies the relationship between the balance of payments and the domestic real economy in the sense that the balance on the current account mirrors saving and investment behaviour of the domestic economy. The balance on current account equals the difference between domestic saving and investment. The link between the domestic sectors and the external sector of an economy can also be expressed in terms of the difference between disposable income and expenditure on goods and services (absorption) by domestic residents, including of course the government sector. The difference between disposable income and the absorption of this income through expenditure (consumption and investment) equals the balance on the current account. The relationship implies that e.g. an improvement of the current account position must be reflected in a reduction in expenditure relative to income (including in the government's budget), and vice versa.

3. The **capital account** of the balance of payments covers all transactions that involve the receipt or payment of capital transfers and the acquisition/disposal of non-produced, non-financial assets. Given domestic saving and investment (and so the balance on current account) the balance on capital account affects the economy's net acquisition of financial assets.

4. The **financial account** covers all transactions associated with changes in foreign financial assets and liabilities of an economy, including movements in reserve assets. The flow of financial transactions can be analysed in order to learn how a current account deficit (and the net capital account) has been financed by means of net financial inflows and reserve assets; in case of a

current account surplus (and capital account), it can be seen how a country accumulated wealth abroad or repaid liabilities.

5. The breakdown of the balance of payments into current and capital and financial accounts does not preclude the choice of other categories for analytical purposes. An alternative – though not nowadays represented in the standard layout – involves a distinction between transactions above the line and transactions below the line. Wherever the line is drawn, the two groups of transactions must be numerically equal with opposite signs. Below-the-line transactions may be considered to be accommodating or financing the net result of above-the-line transactions, which may be considered autonomous. Below-the-line transactions can be defined as transactions affecting the net foreign assets of the banking system, including the central bank (balance of the monetary sector of the balance of payments). In that case, the overall balance equals the current as well as the capital and financial account transactions of non-monetary sectors.

6. This presentation may be helpful to analyse the balance of payments and the domestic money supply. Thus the net external transactions of the domestic money-holding sectors in goods, services, income flows, transfers, "investments" of all kinds (direct, portfolio, trade credits etc.) add to or subtract from domestic money stock. This is much the same as the sum of the balance on current, capital and financial accounts (non-monetary sectors), together with errors and omissions. Put another way, the change in the net external position of the banking system plus the change in net official external reserves – the remaining items in the balance of payments – constitute the external influence on money stock.

7. The overall balance, depending on the view of the analyst, can be defined alternatively by considering only movements in reserve assets as below-the-line transactions. Another approach analysis financial behaviour within the financial account, e.g. disinvestment of short-term deposits held at foreign banks, followed by investment in foreign bonds.

International investment position

8. The summation of a country's savings over an extended period of time (with adjustment for capital transfers and valuation changes) results in a picture of the stock of its wealth. A country's balance sheet consists of its stock of domestic non-financial assets plus its net international investment position (IIP). The picture of a country's IIP at the end of a specific period reflects, apart from the stock of external financial assets and liabilities, the movements in the position over a recent period broken down by the cause of change such as transactions, valuation changes and other changes. The IIP can be used for a reconciliation of stocks and flows and for analysis of yields and rates of return on external investments. The net IIP of a country can be used to analyse developments and trends with regard to its performance vis-à-vis the rest of the world.

Policy measures: Balance of payments adjustment

9. In stable economic and political conditions the inflow of funds to finance an ex ante excess of domestic investment may be quite elastic. Such inflows

may be related to direct investment, loans obtained from foreign banks, or bonds issued in foreign markets. If economic and political conditions are judged unfavourably by the markets, investors may not wish to increase their claims on the country. In that case a country may rely (partly) on reserve assets as a source of financing the current account deficit (or accept a lower exchange rate). But that response may not be sustainable. Policy measures in order to obtain a viable payments situation will be necessary. The adoption of appropriate policy measures will induce financial inflows on a sustained basis as well. In the case of a country with a persistent current surplus, policy measures to correct the situation may be necessary if the build-up of net claims do not reflect ex ante market intentions. Policy measures to be taken to adjust the balance of payments – on the basis of among others analysis of balance of payments figures – can imply: (i) Monetary policy measures; (ii) Fiscal measures; and (iii) Exchange rate changes, if relevant.

ANNEX

Statistics on external transactions which need to be co-ordinated at the European level

Outputs

Frequency	Users	Total	Intra-MU	Intra-EU	Extra-MU	Geo detail	Classification
Monthly	ECB	No	No	No	Yes	MU aggr. (MUMs and non-MUMs)	- Key items (goods, services, income, current transfers). For financial transactions (banking sector) IMF standard components for extra; for banking supervision intra data from large banks.
	Commission	No	No	No	Yes	Level 1	- Detailed extra figures for goods are required (although not for other BOP components). No intra data would be required if quarterly data are timely (some two months after reference period).
	IMF	No	No	No	No	No	
Quarterly Flows	NA/FA ECB Commission	Yes No Yes	No No No	No Yes Yes	No Yes Yes	No MU aggr. Level 2 Level 2	- Sufficient level of detail for deflation purposes - IMF standard components - Detailed data for goods (both intra and extra). For services, income and transfers IMF standard components (services classification should be further developed). For intra limited information required at European level. - IMF standard components
	IMF	Yes			Yes	No	

Frequency	Users	Total	Intra-MU	Intra-EU	Extra-MU	Geo detail	Classification
Quarterly Stocks (IIP)	IMF	Yes	No	No	No	No	- Some items from liabilities to derive external debt
Annual Flows (additional to quarterly)	NA/FA ECB Commission	Yes	No	Yes (?)	Yes	No (except EU/MU) MU aggr. Level 2 Level 2	- Sufficient level of detail for deflation purposes - IMF standard components - Detailed data for goods (both intra and extra). For services, income and transfers IMF standard components (services classification should be further developed). For intra limited information required at European level. - IMF standard components
		Yes	No	Yes	Yes	No	
Annual Stocks (IIP)	NA/FA ECB Commission IMF	Yes No Yes Yes	No No No No	No No No No	Yes Yes Yes Yes	No Level 2 Level 2 No	IMF standard components IMF standard components IMF standard components IMF standard, MU aggr. Only