CMFB

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

CMFB
The Chairman

Paris, 2 March 2015

Mr Jens Granlund
President of the Economic Policy Committee

Mr Alfred Camilleri
President of the Sub-Committee on Statistics
of the Economic and Financial Committee

**The revised treatment of EUR banknotes in national b.o.p./i.i.p. statistics**

Dear Mr Granlund and Mr Camilleri,

In the context of the introduction of the ESA 2010 and the BPM6, the existing treatment of EUR banknotes in national balance of payments (BOP) and international investment position (IIP) statistics has been reviewed. The objective was twofold:

- achieve coherence between national BOP/IIP and other statistical domains (namely euro area financial accounts);
- improve the accuracy and economic significance of the BOP/IIP.

Indeed, the former treatment of EUR banknotes in BOP/IIP relied on the implicit assumption that the amount of EUR banknotes actually put into circulation by each NCB and the amount held by residents of each country were both equal to the legal issuance based on the Capital Share Mechanism. It did not account for the cross-border flows, or inward and outward flows, of EUR banknotes after their issuance. At the same time, the counterpart transactions of the actual inward and outward flows of banknotes (e.g. purchases of goods and services by tourists), were recorded in the BOP/IIP. This situation resulted in an unbalanced recording: the inward and outward flows (and stocks as far as the IIP is concerned) of banknotes were not mirroring the counterpart transactions. The BOP and IIP were therefore biased.

To correct this and to achieve consistency with the treatment already in place for the national financial accounts, the new treatment of EUR banknotes in the national BOP/IIP statistics of euro area countries entails the recording of two components:

- **intra-Eurosystem claims/liabilities** (deposits), defined as the difference between the issuance of EUR banknotes based on the Capital Share Mechanism as specified by the Decision of the ECB of 6 December 2001 and the amount of EUR banknotes actually put into circulation; these claims/liabilities give rise in practise for each country to cross border credits/debits, whose remuneration is recorded in the current account as **primary income (interest);**

- **net position of EUR banknotes (currency),** defined as the difference between the estimate of EUR banknotes actually held by residents of each euro area country and the issuance of EUR banknotes based on the Capital Share Mechanism.

The net effect of the two items introduced by the new treatment in the financial account of the BOP and in the IIP corresponds to the inward or outward flows of EUR banknotes after their issuance that should have a mirror outward or inward transaction (paid by banknotes and recorded in the current, capital or financial account).

The initial intention was to implement the revised treatment of EUR banknotes in national BOP/IIP statistics in September 2014, together with the new statistical standards, so as to minimise revisions. However, the necessary consultation of all relevant Committees within the ESS and the ESCB made this impossible and the CMFB advised unanimously on a flexible introduction of the revised treatment from September 2014 to end-March 2015. This flexibility allowed nine euro area countries (AT, CY, EE, ES, IE, NL, PT, LV and SK) to introduce the revised treatment in BOP/IIP, whereas the remaining ones will do so by end-March 2015.[1]

The revised treatment of EUR banknotes in national BOP/IIP statistics affects the national data of euro area countries from the physical introduction of the EUR banknotes onwards, i.e. from January 2002. While the new treatment has a rather limited impact on the MIP indicator of "net IIP as a percentage of GDP" for most euro area countries, i.e. well below 5% of national GDP over the relevant period (from 2002 onwards), there are few cases where the impact becomes rather large towards the end of 2013.[2] These are the cases of DE (decrease of around 5% of GDP), IE (decrease of around 10% of GDP), GR (decrease of around 8% of GDP), PT (increase of around 5% of GDP) and SI (increase of around 6% of GDP); for LU, the decrease is over 100% of GDP.

The revised treatment has an impact on net external debt and for some countries also gross external debt.

Yours sincerely,

Jacques FOURNIER

Cc: Members of the CMFB

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[1] Because of the impact of the accounting deficiencies of the old method on national errors & omissions, some euro area countries have unilaterally adopted the revised methodology some years ago.

[2] The impact has generally increased over time, reaching a maximum in 2014.