What about consistency in the external account?

UNECE Workshop on BOP/ROW consistency
Minsk October 2017
Overview

1. Methodological confluence of macro-economic statistics
2. User needs
3. How far BOP / ROW consistency?
4. Typology of differences
26.12 The international accounts for an economy summarize the economic relationships between residents of that economy and the rest of the world. They comprise:

a. the balance of transactions between residents of the economy and the rest of the world during a specific period of time;

b. the international asset and liability position of residents of an economy as at a specific balance sheet date; and

c. the other changes in the international asset and liability position of residents.

These accounts may be set out in a number of ways, including in balance sheets and other change accounts.

26.13 Section B of the chapter discusses the accounting rules of the international accounts. These are consistent with the SNA accounting rules and agreement has been reached on when the SNA and when BPM6 takes the lead in defining the rules to be applied in both contexts. Residence is a case in point where the SNA follows BPM6.

26.14 The structure of the international accounts and their relation to similar SNA accounts is the subject of section C.

26.15 A feature of the financial accounts and IIP of the international accounts is the introduction of functional categories that describe the main purpose of financial investment abroad. This is the subject of section D.

26.16 Section E touches on some considerations of particular importance to the international accounts: global imbalances, exceptional financing, debt reorganization, currency unions and currency conversions.
A. Introduction

2.1 This chapter first describes and illustrates how the international accounts are an integral conceptual part of the broader system of national accounts. It then covers important aspects of statistics such as time series.

B. Structure of the Accounts

References:

2008 SNA, Chapter 2, Overview, and Chapter 16, Summarizing and Integrating the Accounts.

1. Overall framework

2.2 The international accounts for an economy summarize the economic relationships between residents of that economy and nonresidents. They comprise the following:

(a) the international investment position (IIP)—a statement that shows at a point in time the value of: financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets; and the liabilities of residents of an economy to nonresidents;
(b) the balance of payments—a statement that summarizes economic transactions between residents and nonresidents during a specific time period; and
(c) the other changes in financial assets and liabilities accounts—a statement that shows other flows, such as valuation changes, that reconcile the balance of payments and IIP for a specific period, by showing changes due to economic events other than transactions between residents and nonresidents.
User requirements: timeliness

- **BOP/IIP**
  - Monthly Frequency (b.o.p. only):
    - $t+44$
  - Quarterly frequency (b.o.p./i.i.p.):
    - $t+82$

- **National Accounts**
  - Quarterly national accounts
    - $t+30/t+45d$: flash
    - $t+60$: main aggregates
    - $t+85/t+90$: NF Sector Accounts
    - $t+85/t+100$: Financial Accounts
  - Annual Accounts
    - $T+9M$: main aggregates
    - $T+9M$: sector accounts
    - $T+26$: supply and use tables

User Requirement:
1. Consistent messages as regards the developments in levels and growth rates, across frequency spectrum
2. Sufficient detail to support analysis
Example: EA Current Account

Current Account Balance
Levels

Current Account Balance
Quarter on quarter changes

Why consistency in the external account?
Germany contributed most to the euro area current account surplus in 2016, although other countries also made significant contributions (see Chart E).

In 2016 Germany’s current account surplus stood at 2.4% of euro area GDP, followed by the Netherlands (0.6%), while positive contributions of between 0.1% and 0.4% of euro area GDP were made by Italy, Spain and Ireland. By contrast, France recorded a current account deficit of 0.2% of euro area GDP.

Why consistency in the external account?

Link to economic bulletin:
Structure of the national accounts framework and linkages with the international accounts

- Several items do not occur in the external account!
- These items describe the resident behaviour of resident agents

Quality dimension of b.o.p. ROW consistency extends across these accounts only:

- Goods and services account
- Distribution of Income Account
- Secondary Income Account
- Capital Account
- Financial Account
- IIP and Other Changes
Extend of consistency
Goods and Services

Consistency in the Goods and Services Account

- Aggregate consistency
- Product breakdowns in NA <> BOP <> Primary data
- Split Goods and Services crucial for BOP, not for NA.
- Consistency with Goods primary data: methodological differences: ownership
- Consistency with Services primary data: methodological consistency, but role imputations in NA and BOPS (e.g. FISIM)
Primary and Secondary Income
- Compatible concepts
- Often same primary data sources
- However functional classification in b.o.p., consistency only at a higher level, adds to b.o.p. / ROW comparability and reconciliation challenges.
Financial Account and Balance Sheet

Differences in classification!

Primary Income, Financial Account and Balance Sheet
- Differences in classification
- BOP: enhanced detail
- No full matching as regards consistency
- Problems as regards reconciliation level BOP/ROW
• The euro area RoW account in the EAA is derived directly from b.o.p./i.i.p. statistics: one of the most important building blocks

• If large inconsistencies exist between the two statistics, these results in “horizontal imbalances” that are reconciled

• To analyze the existing differences and with the aim to reduce/eliminate them, the CMFB established a Task Force on NA-BOP split in two stages:
  − Phase I with a focus on good and services items
  − Phase II with a focus on the financial account flows and stocks including primary income, being supported by an ESCB work stream

• The analysis of the BOP-RoW differences is based on a common typology
A typology for the differences (I)

• **Methodological differences**
  − Over time minor methodological discrepancies may be found
  − The interpretation of the textbooks may raise doubts

• **Vintage and revision differences**
  − Discrepancies arising from different data vintages and revision practices are still frequent
  − The implementation of the harmonised EU revision policy is needed

• **Different balancing and reconciliation practices**
  − E&O or “vertical discrepancies” are frequently visible in the b.o.p. and not in sector accounts

• **Different coverage**
  − For historical reasons b.o.p. and i.i.p. statistics and national (sector) accounts have implemented the manuals at different paces
  − E.g. recording of illegal actives (recently enforced for ESA 2010 data), special purpose entities (SPEs) or recording of transit trade
A typology for the differences (II)

- **Different data sources**
  - The use of different data sources is eventually the main cause for discrepancies
  - The two statistical domains may decide for different data sources to ensure consistency with other components of the accounting framework

- **Different estimation methods**
  - There are different estimation methods for the same reality, frequently based on the same raw data
  - For instance, there are still several estimates for FISIM, for the CIF/FOB adjustment, for merchanting, for reinvested earnings on FDI, etc…

- **Compilation errors and other non-specified reasons**
  - Compilation errors are intrinsic to the statistical function!
  - Ad-hoc differences will arise due to compilation and dissemination errors in both statistical domains
  - These errors are usually easy to identify and of a non-structural nature
Phase I final Report provided recommendations to overcome differences on specific sub-items of goods and services:

- Discrepancies stem mainly from **methodological discrepancies** and/or interpretations of statistical manuals, and **lack of inter-institutional coordination**. This points to the need of enhancing the coordination of the statistical community in order to achieve a common understanding of the manuals.
The template used last year to analyse those differences on financial account and primary income items included information already provided by the ECB regarding:

- **Thresholds**: based on relative/absolute measures, distinguishing property income, financial transactions and stocks
- **Differences**: 2014-Q4 and 2014-Q1 to 2015-Q4 (average) reference periods

The national compilers provided information on:

- **Exact size** of the discrepancy: if that provided not representative
- **Typology**: select from one of the seven categories previously mentioned
- **Detailed reasoning** for the discrepancy
- Tentative **timeframe** envisaged to overcome the differences

The template focused on those detailed sub-items for which a direct comparison between both domains is feasible. As a consequence, a residual “others” category was included.
The “Other” residual category mainly refers to debt instruments/securities, loans and deposits reflecting the lack of a functional category distinction in sector accounts.
Those differences on data sources, reconciliation practices and especially methodological (interpretational) issues represent overall the bulk of the detailed differences identified for the euro area countries. This result is very similar to that of the TF on BoP-NA Phase I on goods and services.

<table>
<thead>
<tr>
<th>Typology</th>
<th>Reported size of differences (% of the identified total, sum of the national differences)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vintage and revisions</td>
<td>1%</td>
</tr>
<tr>
<td>Coverage</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>Estimation methods</td>
<td>2%</td>
</tr>
<tr>
<td>Reconciliation practices</td>
<td>16%</td>
</tr>
<tr>
<td>Data sources</td>
<td>20%</td>
</tr>
<tr>
<td>Methodology</td>
<td>59%</td>
</tr>
</tbody>
</table>
The analysis of the differences by country reveals a quite heterogeneous picture, both regarding the current account…

**Current account: average absolute differences, for the period 14Q3-16Q2** (% b.o.p. current account)

Source: ECB
...and also the financial account

International investment position: average absolute differences, for the period 14Q3-16Q2 (% of stocks – i.i.p.)

Source: ECB
Why consistency BOP/ROW

Thank you for your attention
Any Questions?