How does globalisation affect the use of Balance of Payments Statistics for policy purposes?

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1. Introduction

The most important structural change that has taken place in the world economy over the last two decades has been the very significant degree to which trade and financial relationships have increased across countries. This phenomenon – popularly known as globalisation – is having a deep impact on the way modern economies work and on the manner in which the effects of shocks and policies are transmitted internationally. Thus, it should be no surprise that discussions focusing on the economic and financial effects of globalisation nowadays figure prominently in the agendas of both policymakers and private-sector participants.

Because globalisation is nothing but the reflection of the growing interdependence of national economies, and since Balance of Payments/International Investment Position Statistics (henceforth, BoP statistics) are precisely designed to record such interdependence in the most faithful possible way, it follows that the more globalisation progresses, the more interest there is in such statistics both from the economic and the policymaking viewpoints.

However, the forces unleashed by globalisation also have the potential to weaken, sometimes fundamentally, the connection between the underlying economic phenomena and their statistical representation. First, the liberalisation of trade and capital flows makes it harder to collect the information that allows such flows to be recorded properly. Further, as globalisation leads to the delocalisation of economic and financial activities, there is a risk that the residence criterion on which BoP statistics are based may fail to properly capture the true underlying economic behaviour. Consequently, while globalisation has made the statistical recording of economic and financial interlinkages all the more relevant, it has also made it harder to make such a recording properly or to continue to draw correct and accurate monetary and economic policy implications from BoP statistics.

Of course, globalisation also has a special significance in Europe, since the creation of the euro area can be regarded as both a consequence of the process of globalisation –one money was finally created to accompany one market– and a further step in this process. Indeed, following the creation of the euro area the world has a new regional currency which is the second global currency. Moreover, the resulting elimination of exchange rate risk within the euro area, together with the deep degree of integration of money markets already achieved in the context of the single monetary policy, are powerful forces pushing for economic and financial

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integration within the area. Finally, EU enlargement, which on May 1st has added ten new Member States to the European Union, confirms that globalisation continues to thrive in Europe.

Precisely because of the creation of the euro area, important consequences very closely linked to the conduct of the single monetary policy have ensued. This policy is –as we all know so well– firmly oriented towards the pursuit of price stability and this has made it essential to create area-wide statistics which were until a few years ago simply non-existent. The "First-for-Europe" principle is therefore nothing but the natural consequence of the new European monetary and economic policy framework.

As concerns BoP statistics, the advent of the euro area also entails a number of challenges. From the viewpoint of the single monetary policy, there is no doubt that BoP statistics play a relevant role: firstly, as indicators of economic, financial and monetary developments that help the ECB decide the appropriate monetary policy stance; and secondly, to enlighten our understanding of how monetary policy changes are transmitted internationally and how external shocks may affect domestic conditions in the euro area. As concerns national BoP statistics, the existence of the euro area also poses a number of challenges which have to do with the different light in which one has to understand and analyse such statistics now that the future paths of the exchange rate and of interest rates in any member country are no longer linked to the current and prospective evolution of its balance of payments.

The main message of this paper is that, given the importance of properly understanding the functioning of highly interdependent economies, BoP statistics will continue to be of great relevance to both policymakers and economic agents. This is even more so in the euro area, given the importance of properly taking into account international factors and repercussions when conducting the single monetary policy.

To examine these issues, the paper is structured as follows. Section 2 looks at the general challenges that the process of globalisation poses to BoP statistics. Section 3 explains the usefulness for policymaking of BoP statistics nowadays concerning monetary and economic policies in the euro area. Section 4 examines in some detail the specific policy challenges posed by globalisation to BoP statistics. Section 5 draws the main conclusions and policy implications.

2. Globalisation and Balance of Payments Statistics

The increasing interdependence of national economies that globalisation entails spans several basic dimensions which have important implications for BoP statistics. While both commercial and capital flows have been rising rapidly over the past two decades, as previously existing trade barriers and exchange controls have been reduced or eliminated, it should nevertheless be acknowledged that capital flows have risen considerably more rapidly than trade flows (Federal Reserve Bank of Kansas, 2000; Obstfeld and Taylor, 2002). In fact, during the period 1980-2002, while the total aggregate dollar value of world nominal

imports increased at an average annual rate of 5.5%, the dollar value of total aggregate external liabilities increased twice as fast at an average annual rate of 11% (Greenspan, 2003). Figures 1 and 2, which depict the expansion of trade in goods and services and of external positions in the OECD over the past two decades, basically tell the same story for industrialised countries as for the world as a whole.

The expansion in the global exchange of goods, services and financial assets has also translated into an increasing dispersion in current-account balances, also reflecting the easier financing of external deficits in an environment of free capital mobility and increasingly sophisticated financial markets (Freud, 2000; Edwards, 2003). The well-known finding of Feldstein and Horioka (1980) that there seemed to be an extremely high correlation between national saving and investment positions and thus a considerable low dispersion of current-account imbalances is now much less so. Indeed, this correlation has gone from 0.97 in the seventies to 0.96 in the eighties and to less than 0.80 most recently when looking at industrial countries (Greenspan, 2003). Thus, in today's world external imbalances among the major global partners are taking a dimension that is greater than in the past -as with the US current-account deficit- since they tend to be more easily financed during longer periods.

While capital flows have dramatically increased in size, they have also become highly volatile, at least as far as short-term flows are concerned. This volatility is underpinned not just by the fact that investors' access to almost instant information and new technologies allows them to alter with great speed their global portfolios, but also due to well-known market dynamics (such as herding and the like). But even with the traditionally more stable capital flows -like Foreign Direct Investment- things seem to be different too. In today's economy there is an increasing number of firms and financial intermediaries that have become multinational as a result of pursuing international diversification strategies. This implies that knowledge about IIP has become increasingly relevant as a source of information about the location of direct, portfolio and other investment.

Consequently, as economies have become more open and exhibited larger and more dispersed current-account imbalances against a background of significantly larger and more volatile capital flows which have led to a wider international diversification of assets and liabilities, the interest in BoP statistics has, other things equal, become higher than in the past.

As policymakers we care about BoP statistics because they provide relevant information that can help us to answer certain questions and make better policy decisions. Questions such as: Is the US external deficit sustainable at the present exchange rate levels or will further adjustment be necessary? How could a further fall in the dollar against the euro affect the European recovery and the balance of risks to price stability in the euro area? How much are purchases of US bonds by Asian central banks preventing a further fall in the dollar and keeping long-term interest rates in the US lower? What is the most advisable international allocation of responsibilities in addressing the present global imbalances through policy action? How large

are the trade surpluses that Argentina should run in the future to service its official and private external debt? To what extent do the potentially very high capital flows into the new Member States of the EU needed for real convergence also subject their economies to the risk of macroeconomic or financial instability in the transition to EMU?

The above questions show that BoP statistics are useful for a number of policies (Banque de France, 2002; South African Reserve Bank, 2002; Office for National Statistics, 2001). At the national level, they provide important inputs for the conduct of monetary, financial, fiscal and structural policies. At the international level, they are a valuable source of information for the design of mechanisms to prevent and resolve crises and to contain international contagion. They also play a role in international policy discussions –such as those within the G-7, G-10 or G-20– , which often relate to the risks posed by global external imbalances and how to reduce them. Table 1 summarises the different ways in which BoP statistics are useful in each of these policy domains.

While past experience tends to supports the view that the usefulness of BoP statistics of a given quality tends to rise with the degree of globalisation, this may not always be the case in the future. To illustrate this idea in a simple way, Figure 3 represents the usefulness (for policy) of BoP statistics as a function of the degree of globalisation. Clearly, when economies are closed, there is no need to have BoP statistics since there is no exchange of goods, services or capital. Similarly, in the extreme case where the degree of globalisation is so high that the national economies are as integrated –both in economic, financial and institutional terms- as the US states, the value of BoP statistics becomes quite small (although you need then good regional statistics). Without going to such an extreme, it is fair to think that as globalisation becomes very intense, the value of BoP statistics gets lower beyond some point, since the nationality – or even supranationality – principle becomes so much more important from an economic viewpoint relative to the residence principle upon which traditional BoP statistics are based. So, it is natural to think that while the usefulness of BoP statistics of a certain quality increases as globalisation advances, such benefits –while continuing to be positive- may begin to diminish after a certain point (although as the shaded area in the Figure shows, it is not clear how rapidly the benefits may decline after reaching the maximum). My feeling is that economies are nowadays in the ascending segment of the curve, although there may be reasons to think that they will be approaching the global maximum over time as globalisation continues. However, this may only happen in the very distant future.

Turning now from benefits to costs, Figure 4 illustrates how globalisation affects the costs of producing BoP statistics of a certain quality. As can be seen, the costs rise as globalisation advances since many of the traditional sources of information become less relevant (e.g. many of the previous controls on capital and trade flows were a key source for the statistics) and new, more costly methods of gathering the necessary information have to be put in place to maintain a reasonable degree of quality. It is also quite natural to think

that costs tend to increase faster as globalisation increases, ultimately making it extremely costly to collect such statistics while, as seen in Figure 3, their usefulness becomes very small.

Figure 5 puts together both schedules –benefits and costs– to make the basic point that BoP statistics of a certain quality will need to be collected –even at an increasing cost– as long as their usefulness for both economic agents and policymakers outweighs their production costs. My feeling is that this is the case today and is likely to continue being the case in the foreseeable future. Specifically, it would be desirable to make efforts to produce BoP statistics of a certain quality insofar as the cost required to produce BoP statistics of a given quality (including the complementary statistics which are deemed to be necessary) does not outweight their usefulness. Alternatively, one may still want to continue producing BoP statistics beyond this point, but settling for a lower overall quality insofar as this still allows the usefulness of such less-precise BoP statistics to more than compensate for their production cost.

3. The usefulness of Balance of Payments Statistics in the euro area

As a general point, the availability of reliable, timely and comprehensive statistics is clearly of critical importance for the conduct of monetary and economic policies (ECB, 2001). While it is a fact of life that policy is always conducted under uncertainty, the quality of statistics can very much contribute to reducing such uncertainty. Good statistics give us a better idea of the current state of the economy and help us refine our econometric models so as to better capture the behavioural relationships that are then used to forecast future price and output developments and to ascertain the impact of policy actions. Good-quality and timely statistics allow policymakers to reduce the so-called "data", "parameter" and "model" uncertainties, thus contributing to better, more timely policy decisions and, ultimately, to an improved economic performance.

Given the economic and (all the more so) financial interdependencies existing between the euro area and the rest of the world, it is only natural to think that good and timely BoP statistics at the level of the euro area can also significantly contribute to the overall quality of the single monetary policy and of other policies in several ways. When examining the usefulness of BoP statistics in the euro area and how globalisation is likely to affect them, a distinction should be made between the usefulness of such statistics at the area-wide level and at the national level.

Firstly, euro-area aggregate BoP statistics play a role through their contribution to the two pillars of the stability-oriented single monetary policy. As concerns economic analysis, in addition to being an indispensable building block of national income and national financial accounts, such BoP statistics can be useful - as a complement to other statistics - as shorter-term indicators to assess current and prospective economic and price developments in the euro area. Specifically, such statistics provide an interesting and different angle on the interplay between supply and demand forces, and this may be revealing concerning the extent to which the rate of expansion of aggregate demand is likely or not to be consistent with the

maintenance of price stability in the euro area. For example, while it is a truism that an external deficit reflects the fact that absorption is higher than output, under certain conditions this is also a reflection of excess demand pressures. Also, depicting the current-account balance as the sum of private and public saving-investment net balances is helpful for gaining a first impression of whether an overall external deficit reflects, for instance, a higher fiscal deficit or higher private investment, which have very different economic implications. Looking at the sources of an external deficit and how it is financed –through FDI, portfolio or other investment flows– is also valuable as a rough guide of the sustainability of current-account imbalances and of potential exchange rate pressures which could affect future price developments. As concerns monetary analysis, area-wide BoP statistics are necessary to compile and analyse the external counterpart of monetary developments (Frenkel and Johnson, 1987; Polak, 2001; and ECB, 2003).

Area-wide BoP statistics also play a role in helping identify the international transmission of monetary policy measures adopted in the euro area through the relevant trade and capital flows. Conversely, such BoP statistics reflect how external developments affect the euro area economy. Finally, area-wide BoP statistics are not only useful for the single monetary policy but for those economic policies with a European dimension. For instance, changes in trade and capital flows are informative concerning competitive advantages and disadvantages in certain sectors or markets across the area, which may be useful both for designing structural reforms and for conducting international trade negotiations.

As concerns the economies of the Member States, the existence of the euro necessarily means that national BoP statistics lose part of their direct value for national policymakers since –unlike in the case of national currencies– their evolution is no longer linked to potential exchange rate developments and the financing of national current-account imbalances is easier since a significant part of exchange rate risk (intra euro area) has been eliminated. But this loss at the national level –which reflects the transfer of monetary sovereignty from the national to the supranational sphere– doesn't mean that BoP statistics do not continue to be valuable in a national context. In addition to being a necessary building block of national income and financial accounts, national BoP statistics are also necessary to enable the area-wide BoP statistics to be obtained by aggregation –and thus to play an important role in the conduct of the single monetary policy– . Moreover, national BoP statistics can be particularly helpful at the national level in identifying national supply and demand imbalances or competitiveness problems and in providing useful hints for domestic fiscal and structural policies (See Table 1). Also, given the internationalisation of the economic activities of financial and non-financial firms, the analysis of investment flows and of the IIP may also be revealing of how the country's fortunes are linked to the rest of the world and of what sources of external shocks may be more likely in the future (e.g. as when significant investments are made in emerging market economies). In sum, national BoP statistics continue to be valuable for those policies which remain under the direct control of national authorities after the creation of the euro area.

The graphical representation used earlier can also illustrate how globalisation affects the usefulness and costs of BoP statistics in the euro area both at the national and euro-wide levels.

Let's consider, for example, the case of any euro-area country, say Spain. Before the creation of EMU, and given the existing degree of globalisation, Spain was at the point marked SP98 (Spain in 1998) in the upper part of Figure 6, which depicts the national benefits from using national BoP statistics. Following the creation of EMU, the benefits to be gained from national BoP statistics by Spanish policymakers became lower since they could no longer be used for assessing future exchange rate pressures on the (now defunct) peseta or for the conduct of the (now relinquished) national monetary policy. Thus, immediately following the creation of EMU the benefits for national use are lower at each degree of globalisation (or integration), with Spain moving to the point SPEURO along a lower benefit schedule. Of course, as the very existence of the euro area leads over time to higher integration between the constituent national economies, the benefits to be reaped by Spain should be progressively greater, meaning that the point SPEURO should move rightwards along the lower schedule with time[†].

Moreover, if one looks at the lower part of the Figure, the costs of producing national BoP statistics of a given quality should have actually increased following the creation of EMU. Spain would have thus moved from SP98 to a position like SPEURO in the now-higher cost schedule. Such point is also likely to shift rightwards over time along the new schedule as economic and financial integration deepens within the euro area. Consequently, the net benefits (benefits minus costs) of producing national BoP statistics have decreased for local policymakers following the creation of EMU. However, as said before, they remain significant enough for us to continue producing such statistics.

Turning now to the value of BoP statistics at the euro area level for the purposes relating to the single monetary policy and other policies, in the upper part of Figure 7 the point marked EURO reflects the benefits to be drawn from the availability of such statistics (which, as explained, are most important for policies at the European level). As far as costs are concerned, the lower part of the Figure illustrates a fact well known to our statisticians, namely that there is a cost of producing good-quality area-wide BoP statistics –beyond the traditional cost of producing national BoP statistics– owing, for example, to the need to distinguish between "euro area residents" and "non-euro area residents" or to the presence of asymmetries when aggregating national BoP statistics to arrive at the area-wide BoP statistics. It should be noted, however, that since the benefits of collecting BoP statistics at the area-level are higher than the costs, the net benefits to European policymakers stemming from the existence of area-wide statistics (that previously were not collected) counter the lower net benefits of national BoP statistics for national policymakers which have now resulted following

[†] Whether the final benefits for Spain (SPEURO) after enough time has gone by can become equal or higher than those that existed before the creation of the euro area (SPAIN98) cannot be ascertained in advance. In short, it depends on how the schedules are drawn.

the creation of EMU. Finally, as the economy of the euro area becomes more globalized as time goes by there should be a gradual rightwards movement of benefits and costs along their respective schedules.

4. Specific policy challenges raised by globalisation to Balance of Payments Statistics

While the previous sections have described the impact of the globalisation process on BoP statistics in rather general terms, this section looks at the issue in more detail so as to identify the main instances where globalisation more significantly widens the gap between the statistical recording and the underlying economic behaviour which is of interest to policymakers. It is the task of policymakers to ask that this gap be kept within acceptable limits and that of statisticians to try to satisfy this demand while also taking into account costs-effectiveness considerations.

The main channels through which globalisation tends to widen the gap include:

i. The appearance of new phenomena (driven by technology and financial innovation), which the statistics must reflect or for whose analysis they must provide (so as to allow, for example, study of the sustainability of external imbalances, calculating equilibrium exchange rates or assessing the success of foreign exchange intervention).
ii. Less accuracy in the measurement of certain economic events that BoP statistics have been recording but whose measurement is becoming more difficult in the new international environment (e.g. the international provision of "other services", tourism, FDI and portfolio investment flows, reinvested earnings, etc.).
iii. The need to compile aggregate statistics for areas that are fully integrated in economic and monetary terms, with the difficulty this entails in an area without internal borders (e.g. to identify the relations between euro area residents and between a euro area resident and a non-resident, the double counting of certain transactions, the asymmetries stemming from differences in valuation methods, etc.).

It is fair to say that statisticians have not remained impervious to this changing reality, though their reaction has not always been the same. The responses have included:

i. Making changes to BoP statistics: redefining statistics, new products, etc.
ii. Modifying statistical compilation procedures: new sources of information, new estimation procedures, radical changes in data production systems, etc.
iii. Sometimes the solution has been providing supplementary statistics (for example, those of the BIS), which has required the different statistics involved to be brought closer into line.

Table 2 summarises the main cases in which both the origin of the gap and the statistical response are paradigmatic. A brief description follows of these cases.

4.1. Delocalisation and diversification

a) Impact on monetary (and credit) aggregates

As financial markets have continued to develop in an environment of increasing competition, innovation and integration across national borders, monetary policymakers have begun to ask themselves whether the domestic monetary aggregate that they use as a target, reference (like M3 in the euro area) or indicator of liquidity conditions is still appropriately representing spending capacity and, therefore, continues to warn of imbalances in the economy. Specifically, the possibility of creating liquid assets without problems of conversion in the national currency in non-resident monetary financial institutions may give rise to doubts as to whether such assets should be included in the definition of the more widely used monetary aggregates. In principle, this phenomenon - which affects all economies and applies also to credit aggregates - may hinder the diagnosis of the liquidity situation.

Given that this is a significant problem and that BoP statistics are the statistical framework in which the demand for information must be satisfied, in the specific case of the euro area countries compilers have had to make a great effort to provide the relevant information. Moreover, owing to the detail of the data required (identification of specific instruments not included in the usual categories, of the currency in which they are denominated, and of non-resident counterparties), it has been necessary to resort to supplementary information - such as BIS statistics - which has meant further work to ensure the consistency of the results obtained.

b) Impact on portfolio investment

In general, in a context of high financial integration it becomes very difficult if not impossible to know with precision the geographical origin of portfolio investors. This leads to a loss of information concerning this category of capital flows relative to, say, FDI investors. The Co-ordinated Portfolio Investment Survey (CPIS) was a response to this general need: to provide all countries with a geographical picture of the holders and of their liabilities. From a policymaking standpoint it was relevant to identify the ultimate holders of the resident issues in order to make an accurate assessment of the nature of the capital flows in terms of foreseen volatility and of the stability and solvency of the financial sector. The challenges that the compilation of Portfolio Investment poses to euro statistics are even higher. In the euro area, the difficulties in identifying the holder of domestic securities has made it necessary to use a “residual method” to obtain the euro aggregated portfolio investment liabilities. For this reason, the introduction of security-by-security compilation systems

and the creation of a Centralised Securities Data Base (CSDB) are the way to collect adequate information on this item.

c) Impact on firms' international activities through branches and subsidiaries

The proliferation of subsidiaries or branches established abroad to produce goods for and to provide services to non-residents has generated a demand for information on the real activity of such firms (Foreign Affiliated Trade Statistics, FATS). Although these firms fall within the scope of BoP statistics, the information afforded to users by such statistics is limited to the measurement of the "direct investment capital" supplied among the firms in the group and of the return on this investment (with different classifications that enable the geographical component and the sector of activity of the firms involved to be analysed). The information requested by users is nevertheless much broader. Specifically, given the impact on the economy of the country in which those branches and subsidiaries are established and on the investor country, interest focuses on certain variables that approximate their gross value added and can consequently help better assess such impact. Notable among these are: the number of employees, the value added of the services they provide, and the value of exports and imports of goods to and from firms of the same group and firms not belonging to the group. This information is crucial for decision-making at the international level, where the principle of nationality rather than residence may be more important.

Moreover, the international strategies of major banks also pose a challenge for BoP statistics. On one hand, these may originate significant capital flows between the countries where the headquarters are located and those where the branches and subsidiaries are located. Because many such flows simply reflect the way risk and liquidity are managed by global financial intermediaries, this should be taken into account when interpreting BoP statistics. On the other hand, branches and subsidiaries which borrow and lend in the same local markets will experience an increase in their overall banking activity –and possibly in the risks taken by the headquarters, especially in the case of branches– without any direct trace being left in BoP statistics.

BoP statistics, which are based on the principle of residence and measure economic transactions, can hardly meet this new demand for information without a radical transformation. However, since the sector whose activity needs to be measured partially coincides with firms that have direct investment ties, there is an obvious relationship between the new demands for information and the balance of payments. In this case, although it seems best to bridge the gap by using new sources of information and establishing more comprehensive FATS statistics, it is worth exploiting the synergies that may exist between the two types of statistics -BoP and FATS- and ensuring that they are consistent.

d) Impact on direct investment

Also intimately related to the internationalisation of firm's activities, the existence of "chains of investment" is a reality with which statisticians and users of statistics have been familiar for many years. Although more recent, the use of special-purpose entities (SPEs) is not new either. What is new is the widespread use of SPEs (e.g. in the form of holdings) and the increase in their level of activity in the last few years. The establishment of SPEs in countries in which they did not previously exist results in many cases from legal changes that have reduced the advantages of setting them up only in certain countries. The operations conducted by these SPEs are of such a scale that they distort the measurement of the economic events that BoP statistics are intended to reflect. It is therefore vital that these operations be identified, since otherwise the FDI data may lose a good deal of their significance.

In this case, it was the BoP statistics compilers themselves - rather than policymakers - who pointed out the need to compile and disseminate additional data to enable the activity of these firms to be identified in FDI data. It is intended that, as a result of these additional breakdowns, the studies based on current FDI data to determine the economic impact of FDI on a region or its profitability in terms of expected income flows will lead to the right conclusions and thus to the right investment decisions on the basis of these results.

The SPE phenomenon, though it affects all countries, is of greater importance in those in which it is more attractive to set up SPEs owing, for instance, to fiscal or legal factors. For the same reason, it has a stronger effect on countries considered individually than on aggregates corresponding to a given area. Yet the methodological and consistency problems in constructing euro area data that may arise in the light of the above from the process of aggregation cannot be overlooked.

4.2. Increase in trade in services

As a result both of the higher weight of services in national economies and of greater openness and international integration , there is a greater demand by users (by the European Commission in the case of the EU) for balance of payments data, in particular under the "services" heading. The extra breakdowns required - both in terms of headings and of geographical areas and currencies - exceed those requested by the ECB. Unlike in goods trade, where customs statistics traditionally offer a more detailed breakdown than BoP statistics, there are no alternative sources offering more detailed information on trade in "other services", so demand has focused on this statistic.

The difficulty of filling this gap using the main information collection systems in the industrialised countries has in many cases led national central banks and other competent authorities responsible for compiling BoP statistics to radically modify their compilation systems so as to make greater use of procedures for obtaining data directly from firms instead of using indirect information channels (such as the receipts and payments of

financial institutions). These changes have, in turn, led to an increase in the participation of national statistics agencies in information gathering procedures, given their greater experience with this type of system.

4.3. International liquidity analysis

The Mexican and Asian crises showed that the "foreign reserves" heading had in some cases ceased to be an appropriate indicator of liquidity and financial soundness and, therefore, of a country's potential vulnerability. In a globalised world where financial and currency crises can be propagated very swiftly, it is all the more necessary to have statistics that faithfully reflect a country's foreign exchange liquidity and its ability to react to sudden changes in world markets. Aware of this problem, international institutions, policymakers responsible for ensuring international financial stability and investors themselves stepped up their demands for information. The need was for timely information on all liabilities denominated in foreign currency and on commitments that could affect the foreign currency liquidity of a country (i.e. of its national central bank and government).

The demand for these new statistics, prompted by a specific event with a major impact on international financial markets like it was the Asian crises, has been successfully met. The new statistics (Data Template on International Reserves and Foreign Currency Liquidity) provide important information on the liquidity actually available in a country, particularly in emerging countries where there is some uncertainty about the soundness and stability of their financial systems. They are useful not only for policymakers but also for investors.

However, given the wide range of possibilities now available in financial markets for transferring risk from one country to another (guarantees, collateral, derivatives, off-balance-sheet transactions, etc.), assessing the risks faced by institutional or individual investors would require the information in the template to be supplemented with additional vulnerability indicators (for example, a country's debt broken down by maturity structure, currency and creditor country). BoP statistics probably cannot completely bridge the statistical gap in this field and will have to be supplemented by other sources. For example, the growing demand for statistics reflecting the country risk borne by the banking sector has given rise to the publication of consolidated banking statistics by the BIS (Wooldridge, 2002).

4.4. Sustainability of external imbalances

While financial globalisation has contributed to an easier financing of current-account deficits, assessing the sustainability of such deficits -and therefore the expected direction of future capital flows and potential exchange rate pressures - requires additional information to that provided by BoP statistics (covering, for example, the evolution of trend productivities among other variables). The demand for statistics to proxy

these factors is broad-based -ranging from policymakers to market analysts- and growing. The rise in the US current-account deficit to record highs and its partial financing through the purchases of US bonds by Asian central banks, together with the relocation to China of US firms exporting their end-product to the US (the business delocalisation mentioned above), have highlighted the need for statistics enabling these phenomena to be accurately assessed. However, this task is clearly beyond the scope of BoP statistics.

In sum, this section has described several cases in which globalisation has led to a significant gap between economic events and BoP statistics. As indicated, some of these gaps have been closed or reduced by statistics compilers, who have modified their information systems, produced new statistics or started to provide data breakdowns not previously envisaged. In other cases, the challenges are still being addressed and the gaps will be at best closed in the medium term. Finally, in certain cases, BoP statistics alone will be unable to meet information needs. This means that information requirements will have to be addressed on a co-ordinated basis through the use of various types of statistics, thereby making it very important to ensure the overall consistency of the statistics involved.

5. Conclusions and policy implications

This paper has reviewed how the process of globalisation affects the use of BoP statistics for policy purposes. The main message is that given the importance of properly understanding the functioning of highly interdependent economies, BoP statistics continue to be of great relevance to both policymakers and economic agents. In addition to being an indispensable building block for the preparation of national income and financial accounts, the information supplied by BoP statistics is useful for monetary and financial policies as well as for fiscal and structural policies. They also have an important role to play in the introduction of mechanisms to achieve a more stable international financial system, as well as in helping to focus international policy discussions when, as is now the case, there are sizeable external imbalances.

However, it has also been explained that the process of globalisation poses significant challenges for the use of BoP statistics for policy purposes that must not be overlooked. On the one hand, since globalisation has flourished in a context of reduction or elimination of trade barriers and exchange controls, some of the traditional sources of information used for the production of BoP statistics are no longer available, with the consequent risk of a deterioration in the quality of such statistics. On the other hand –and more fundamentally-, as globalisation leads by its very nature to the delocalisation of economic and financial activities and to a significant increase in the degree of international diversification of investments, there is a danger that the residence criterion on which BoP statistics are based may fail to properly capture the true underlying economic behaviour that is of interest for policymakers. Needless to say, these challenges have become particularly important in the euro area as a result of the need to

produce timely and accurate BoP statistics at the area-wide level for the conduct of the single monetary policy, among other reasons.

At the current high degree of globalisation, policymakers need to continue using BoP statistics for a number of purposes. However, since policymakers need to know certain things that traditional BoP can no longer provide, this has led in recent years to the redefinition of certain items of BoP statistics, to new products and even to the development of new supplementary external statistics. Consequently, the position has changed from a previous situation where policymakers were satisfied with using traditional BoP statistics to a situation where something like "BoP plus" statistics have become necessary. This has meant that in responding to the new needs of policymakers, statisticians have had to carefully weigh the benefits to be obtained from adapting the statistics so that they continue to capture as well as possible the relevant underlying economic behaviour in a globalised world against the material costs that have to be incurred to effectively and efficiently perform this task.

Concerning the euro area, it is evident that national BoP statistics lose part of their value to national policymakers since their evolution is no longer linked to potential national exchange rate developments and since the financing of national current account imbalances becomes easier in the context of a monetary union. Nevertheless –in addition to continuing to be indispensable for constructing national income and national financial accounts-, national BoP statistics play an important role in helping identify national supply and demand imbalances and competitiveness problems, all of which is of great help to domestic policymakers when designing fiscal and structural policies. In addition to their usefulness to local policymakers, national BoP statistics are in any case necessary to enable the area-wide BoP statistics to be obtained by aggregation. The latter play an important role in enriching both the economic and the monetary analyses on which the conduct of the stability oriented monetary policy is based, and also help the ECB better understand the international transmission of monetary policy measures and how economic and price developments in the euro area can be affected by external factors.

Given the dynamism of the process of globalisation, it is very important that statisticians continue to respond to the most fundamental needs of policymakers while ensuring that the production costs of the so-called "BoP plus" statistics are kept within reasonable limits and that the necessary degree of stability is preserved in the main external statistics. Furthermore, since globalisation poses an important challenge for BoP statistics, it is only natural that the response should also be global. Consequently, it becomes an absolute priority to enhance the degree of international cooperation in the production of BoP and "BoP plus" statistics and to increase the consistency of international standards to improve to the greatest extent possible the trade-off between benefits and costs. This may be of particular importance in relation to international capital flows.

Last but not least, in the European case the "First-for-Europe" initiative has highlighted the importance of ensuring that the quality of aggregate statistics is at least as high as that of the Member States' statistics. This will allow the asymmetries detected in the national statistics to be analysed and eliminated from the aggregate data, as well as other measures aimed at improving their overall consistency, accuracy and timeliness.

To conclude, while in a globalised setting BoP statistics have become less sufficient than in the past for responding to a number of questions of interest for policymakers, they continue being as necessary as ever.

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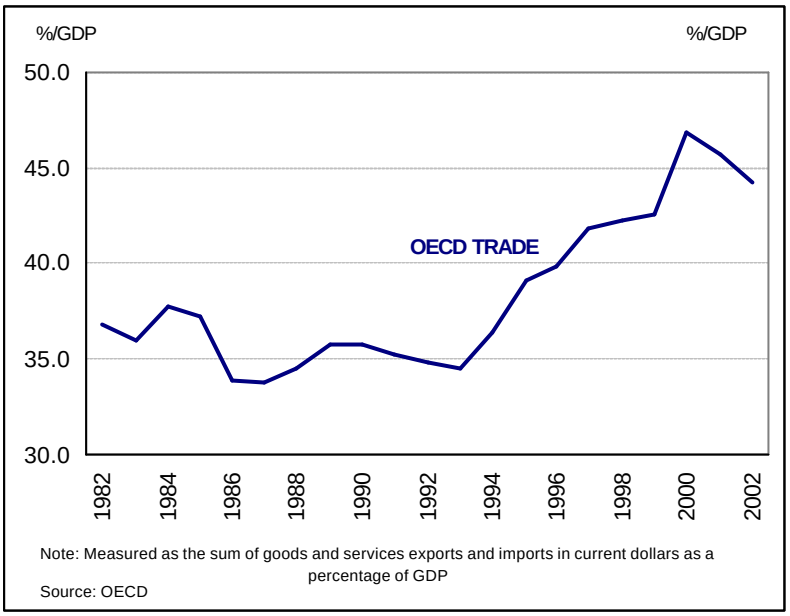
TABLE 1: THE USEFULNESS OF BoP STATISTICS FOR POLICY PURPOSES

Policies	BoP usefulness	Course of Action
Monetary policy	- Compilation and analysis of the external counterpart of monetary developments - Assessment of economic and price developments - Identification of international transmission of shocks	Change in the stance of monetary policy to achieve or preserve price stability in the face of domestic or foreign shocks
Financial policy	- Identification of risks to financial stability (unsustainable current account imbalances, excessive risk-taking by the financial sector, etc.)	Financial-regulation and/or financial-supervision measures to preserve financial stability
Fiscal policy	- Detection of external imbalances associated with unbalanced fiscal policies	Fiscal correction
Structural policy	- Detection of changing patterns of comparative advantage and competitiveness problems	Structural policies aimed at resolving competitiveness problems
International financial architecture	- Detection of underlying economic and financial vulnerabilities and risks of international propagation of crises through trade and capital flows - Facilitating the design of mechanisms aimed at preventing and resolving crises so as to avoid widespread contagion and instability in the international monetary system	Policies of surveillance and transparency Design of conditionality in IMF programmes
International policy discussions (G-3, G-7, G-10, etc. ...)	- Identification of major global external imbalances and their repercussions	Distribution of policy responsibilities across economic areas for the correction of global imbalances

TABLE 2: FROM "ECONOMIC" EVENT TO "STATISTICAL" EVENT

Economic event	Trigger	Impact		Demanded by	Economic importance	Statistical event
		Variable	Action by economic agents			
1. Delocalisation and diversification						
1.a. Delocalisation of deposits and credit	Euro area	M3 Credit	Design of monetary policy	Monetary authority (NCBs and ECB)	Heightened by greater openness and greater monetary integration	BIS statistics supple-ment external sector statistics
1.b. Diversification of Portfolio investment	Freedom of capital movements and development of financial markets	Portfolio Investment	Financial policy measures and investment decisions	Economic policymakers and investors	Heightened by greater openness and more developed financial markets	Creation of Centralised Security Database (CSDB)
1.c. Delocalisation of financial and non-financial firms	Freedom of movement of goods, services, people and capital	Productive and trade structures	Economic policy measures and investment decisions	Economic policymakers and investors	Heightened by greater openness and by changing comparative advantages	FDI and supplementary statistics (e.g. FATS)
1.d. Proliferation of special-purpose entities related to direct investment	Freedom of capital movements and development of financial markets	Direct investment	Investment decision (region and sector) based on distorted statistics	Producers of statistics	Heightened in countries that are more attractive (regulation, educational level, etc.) for the establishment of these firms	More detailed FDI
2. Increasing trade in services	International agreements (GATT)	International trade in services	Trade policy decisions	Governments (national, European Commission) and international bodies (WTO)	Heightened by greater openness and greater economic and financial integration	More detailed statistics on trade in services
3. International liquidity analysis	Asian crisis	Financial and foreign exchange variables	Investment and economic policy decisions based on "inaccurate and inappropriate" risk indicators	International bodies and investors to better prevent financial crises	Heightened in economies with a less sound and stable financial system and with a higher likelihood of crises spreading to them	External sector statistics (Template) supplemented by BIS statistics (consolidated basis)
4. Sustainability of current account deficit	Persistence and size of the US current account deficit and dollar exchange rate movements	Equilibrium exchange rates	Monetary and fiscal policy measures and investment and cost-cutting decisions	Policymakers and investors	Heightened by greater openness and more developed financial markets	Macroeconomic and financial statistics

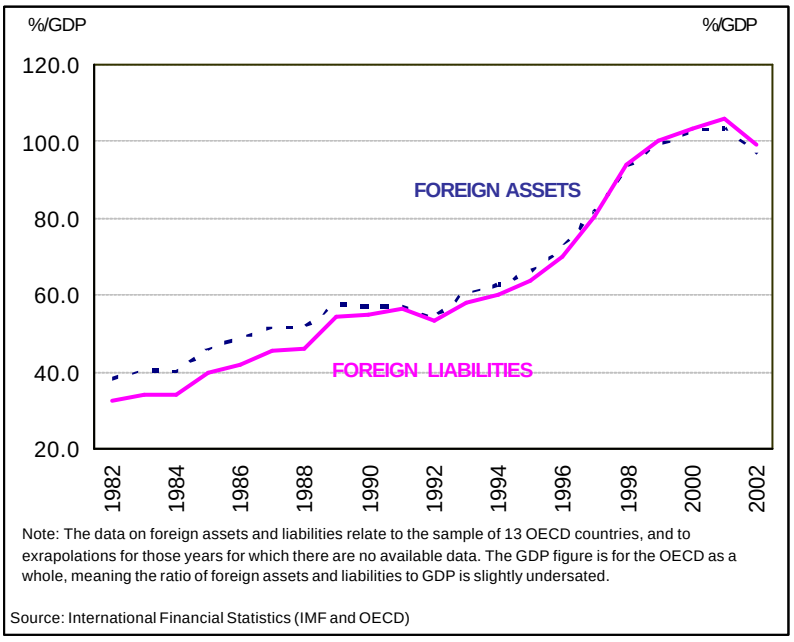
Figure 1: Trade Globalisation



Note: Measured as the sum of goods and services exports and imports in current dollars as a percentage of GDP

Source: OECD

Figure 2: Financial Globalisation



Note: The data on foreign assets and liabilities relate to the sample of 13 OECD countries, and to exrapolations for those years for which there are no available data. The GDP figure is for the OECD as a whole, meaning the ratio of foreign assets and liabilities to GDP is slightly undersated.

Source: International Financial Statistics (IMF and OECD)

Figure 3: Globalisation and the usefulness of BoP statistics

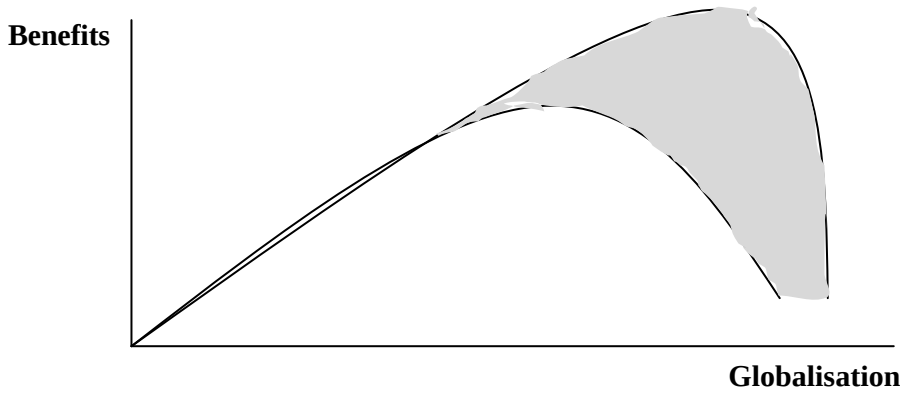


Figure 4: Globalisation and the costs of producing BoP statistics

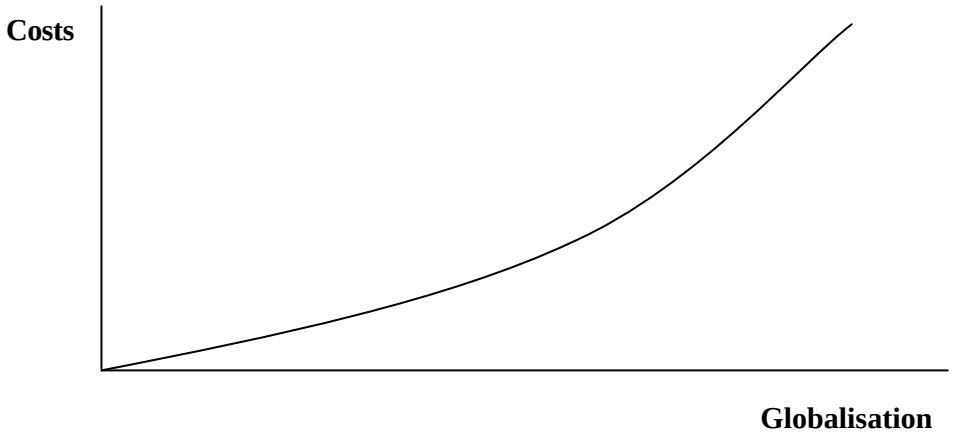


Figure 5: Benefits and costs compared

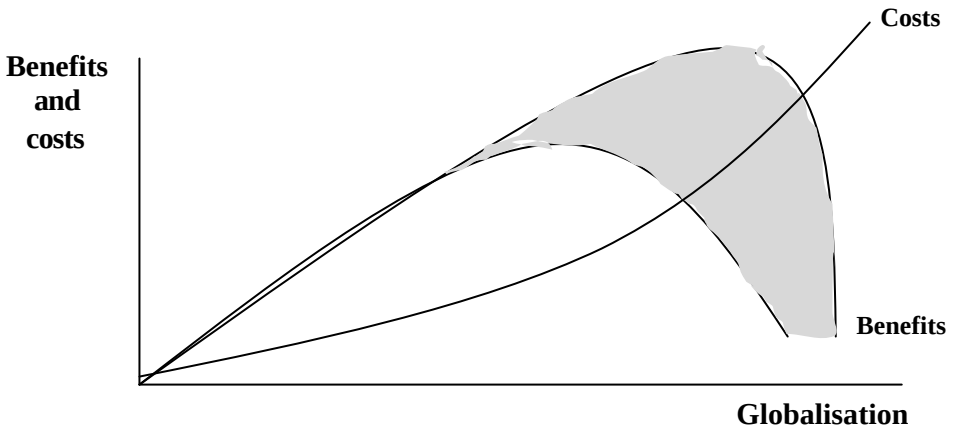
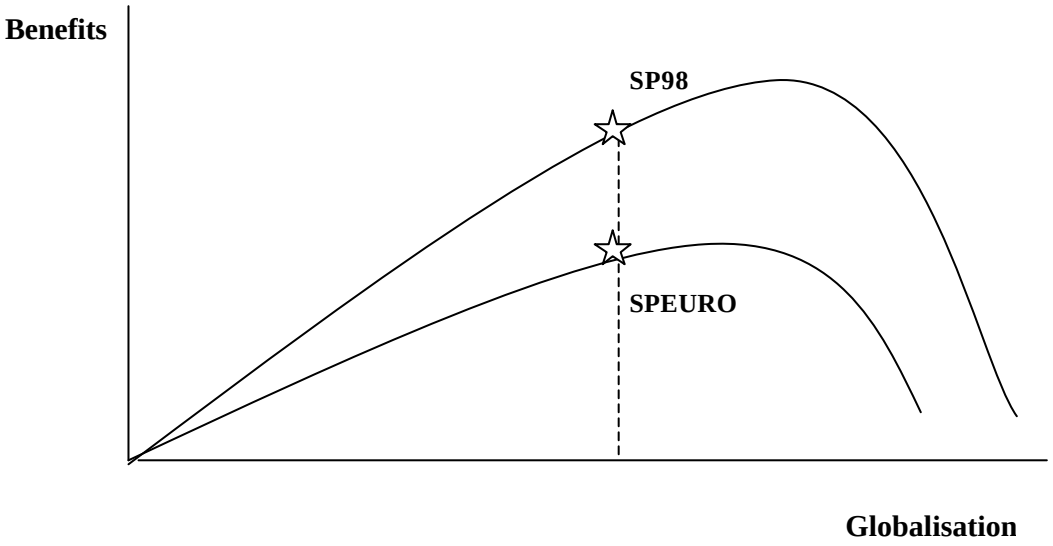


Figure 6: How does EMU affect the usefulness and costs of national BoP statistics?



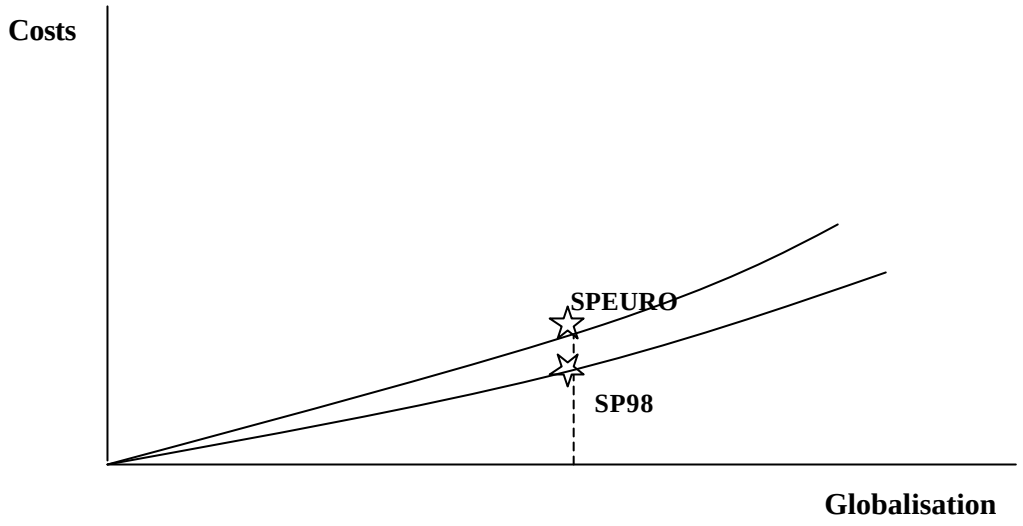


Figure 7: How does EMU affect the usefulness and costs of BoP statistics at the area-wide level?