

Box 2

The balance of payments of the euro area and international reserves of the Eurosystem: methodological issues

Monthly balance of payments statistics for the euro area, compiled by the ECB, are published for the first time in this issue of the ECB Monthly Bulletin (see Tables 8.1 to 8.5 in the “Euro area statistics” section). A press release containing the same statistics was published by the ECB on 30 April 1999. The statistics cover monthly key items for the complete balance of payments of the euro area from 1998 onwards.

From July 1999 the ECB will also publish a quarterly balance of payments of the euro area with a more detailed breakdown of the main items of the financial account (direct investment, portfolio investment, financial derivatives, other investment and reserve assets), as well as investment income.

Euro area balance of payments statistics are compiled by aggregating gross cross-border transactions of euro area residents vis-a-vis non-euro area residents as reported by the 11 participating countries. Transactions between residents of the participating Member States are not considered. For statistical purposes, the European Union institutions (but not the ECB itself) are treated as non-residents of the euro area. The euro area balance of payments aggregates could, in principle, be compiled by adding up the net balances of payments of the individual participating Member States. In practice, however, as set out in the first issue of the ECB Monthly Bulletin, this would exclude all gross figures and would give rise to significant discrepancies at the euro area level.

The concepts and definitions used in euro area balance of payments and international investment position statistics (the latter are to be published next autumn, for end-1998 stocks) are based on current international and European standards, notably the 5th edition of the IMF Balance of Payments Manual (October 1993) and the operational methodological rules adopted by the ECB (ECB Guideline of 1 December 1998 (ECB/1998/17)) and by the European Commission (Eurostat); these have been widely harmonised among national compilers. The following provides a brief description of the individual items.

In the current account, transactions are recorded when economic value is created, exchanged, transferred or extinguished. *Goods* are recorded according to the date of change in ownership; it should be noted that the goods item in the euro area balance of payments (Tables 8.1 and 8.2) is not fully comparable with that in the external trade statistics (see Table 9 in the “Euro area statistics” section of this Bulletin) owing to differences in the definition, coverage and time of recording. *Services* are recorded according to their actual delivery; *income* is usually recorded at the time it is accrued. Income is composed of the compensation of employees and investment income. *Current transfers* are recorded as of the date of occurrence of the underlying transactions; they consist of all transfers that are not transfers of capital, which are recorded in the (new) *capital account*.

In the financial account, *direct and portfolio investment* and *other investment* are compiled on the basis of net inflows/outflows in assets and liabilities with non-residents of the euro area. In addition, the net changes in the intra-ESCB balances with the NCBs of the non-participating Member States, which are generally the result of cross-border transfers executed via TARGET, are included on a net basis on the assets side of the Eurosystem’s sub-item in the other investment account as from 1999. *Financial derivatives* are recorded on a net basis and presented in a separate category outside the portfolio investment account. Net flows associated with interest rate derivatives are recorded as financial derivatives, not as interest flows, in line with recent international agreement.

The international *reserve assets* of the euro area consist of highly liquid, marketable claims held by the ECB and the participating NCBs on non-residents of the euro area and denominated in foreign currency (i.e. in currencies other than the euro and its national denominations) plus gold, special drawing rights and the reserve positions in the IMF of the participating NCBs.

This definition of the Eurosystem's reserve assets complies with IMF guidelines, which may differ from accounting standards used in the Eurosystem's consolidated financial statement (as shown in Table 1.1). The Eurosystem's reserves are compiled on a gross basis without any netting-off of reserve-related liabilities. Positions shown in Table 8.6 are valued on a market basis.

The pre-1999 data for the euro area balance of payments statistics published by the ECB are also based on extra-euro area transactions and are expressed in ECU. The split between intra-transactions and extra-transactions of the MFI sector within the other investment account was partly estimated; thus other investment flows of the euro area MFI sector for 1998 are not fully comparable with those for 1999.

Euro area reserve asset flows before 1999 are aggregates of national data and include instruments issued by other residents of the euro area; they are therefore not comparable with the figures which relate to the Eurosystem's reserve assets from 1999 onwards. Comparability problems arising from the compilation method also apply to pre-1999 data on portfolio investment and financial derivatives.

Further information on the balance of payments data is provided on the ECB's Web site.