Compilation of External Debt and International Reserves Statistics for the Euro Area

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The euro area has existed since 1 January 1999 and is the largest economic and monetary union so far. For the conduct of the monetary policy, statistics should relate to the economic territory composed of the 12 Member States (11 from the euro area inception plus Greece from 1 January 2001). At the same time, and so long as economic (in particular fiscal) policy is still driven at the national level, national statistics are also needed. In the framework of the IMF Special Data Dissemination Standard (SDDS) to which 11 euro area Member States have subscribed, external debt statistics should be disseminated on a quarterly basis (within a quarter after the end of the reference period) as from March 2003 and monthly international reserves detailed stocks are compulsory from April 2000. Although the SDDS requirements do not impose direct obligations with regard to the compilation and dissemination of euro area statistics, the Directorate General Statistics of the ECB intends to conform to this (new) standard to the greatest extent possible for euro area statistics.

As a contribution to the session on “The Measurement of External Debt and Reserves” this paper elaborates on the main features related to the data output required from the euro area Member States with a view to compiling and disseminating timely and reliable data for the euro area as a whole.

EXTERNAL DEBT STATISTICS

The Board of Executive Directors of the International Monetary Fund (IMF) agreed in December 1998 and in March 2000 on refinements to the SDDS. As a result, the IMF’s Board introduced (i) the international investment position (i.i.p.) as a compulsory category of the SDDS, with a timeliness of six months (later extended to nine months), to be compiled for the first time for data referring to end-2001; and (ii) a separate SDDS data category for external debt. With regard to external debt statistics, these should be consistent with the components and concepts of the i.i.p. liabilities. Accordingly, data should be compiled in accordance with the IMF’s Balance of Payments Manual, 5th edition (BPM5). Data should also be broken down into sectors (general government, monetary authorities, banks, other sectors), by (original) maturity – short-term and long-term, and by instrument. In addition, dissemination of further information is encouraged, such as: debt service payment schedule, in which the principal and interest components are separately identified, twice yearly, for the first four quarters and two semesters ahead, with a lag of one quarter; a domestic/foreign currency breakdown.

Sharing the views expressed in the Draft Guide on External Debt Statistics prepared by the IMF and the Inter-Agency Task Force on Finance Statistics (of which the ECB is a member), the ECB considers that for industrialised countries/regions, such as the euro area, the dissemination of external liabilities (debt) is meaningful only in conjunction with data on external assets, as many of the debt positions, especially the very short-term ones, are offset by corresponding assets. Therefore, the approach of using the liabilities side of the i.i.p. for the compilation of external debt statistics was, in principle, regarded as useful by the ECB.

However, this will only be possible when participating Member States’ data are provided to the ECB in a form permitting the external assets and liabilities of the euro area to be compiled separately, which is not currently the case. Owing to the difficulty for most Member States of making correct geographical breakdowns with the tools currently in use, mainly affecting portfolio investment stocks on the liabilities side, thus making it impossible to have a proper intra/extra euro area allocation of stocks, the euro area i.i.p. is, at present, compiled on a net basis, relying on the aggregation of net national data (i.e. addition of euro area Member States’ national net positions vis-à-vis the rest of the world including positions vis-à-vis other euro area Member States, assuming that intra-euro area positions cancel each other out). A full implementation of a separate compilation of external assets and liabilities end-year positions in all instruments is planned from end-September 2002 onwards (for data referring to end-2001).

As the compilation of a euro area i.i.p. on a quarterly or semi-annual basis was not regarded as a priority by the majority of Member States, the ECB will start compiling quarterly i.i.p./external debt figures by accumulating quarterly b.o.p. flows to the latest real stock data available. In addition, the ECB is unlikely to be in a position to compile the extensions encouraged, such as the debt service payments schedule, since not all Member States are likely to compile such extensions.

1 Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.
EXTERNAL RESERVES

Since April 1999, the ECB has required and published monthly data on the stock of international reserves held by the Eurosystem, i.e. the ECB and the now 12 participating National Central Banks (NCBs). The definition of the Eurosystem’s international reserves, which was approved by the Governing Council of the ECB in March 1999, is consistent with the guidelines outlined in the BPM5. The international reserves of the euro area consist of the Eurosystem’s reserve assets, i.e. the ECB’s reserve assets (“pooled reserves”) and the reserve assets held by the NCBs of the participating Member States (“unpooled reserve assets”).

DEFINITION

Reserve assets (i) must be under the effective control of the relevant monetary authority, whether the ECB or the NCBs of the participating Member States; and (ii) refer to highly liquid, marketable and creditworthy foreign (non-euro) currency-denominated claims on non-residents of the euro area—plus gold, Special Drawing Rights (SDRs) and the reserve positions in the IMF of the participating NCBs.

This definition expressly precludes foreign currency claims on residents of the euro area from being regarded as reserve assets either at the national or at the euro area level.

Although governments may hold working balances in foreign currencies, foreign exchange positions of central governments and/or Treasuries are not included in the reserve assets definition for the euro area, in accordance with the institutional arrangements in the Treaty establishing the European Community. Reserve assets data are compiled on the basis of the information provided by the accounting or operations departments of both the ECB and the participating NCBs.

GROSS AND NET RESERVES: THE CONCEPT OF FOREIGN CURRENCY LIQUIDITY

As such, reserve assets are presented on a gross basis without any netting-off of reserve-related liabilities as these should remain the central indicator of a country’s ability to meet its foreign exchange obligations. The only exception relates to the sub-category of financial derivatives, which are recorded on a net basis.

However, against the background of the Asian crisis, the concepts of “usable reserves” and the more general concept of “foreign currency liquidity”, have gained importance. In this respect, the data purely based on the concept of gross international reserves may be supplemented with information about (i) encumbrances on reserves (i.e. the so-called reserve-related liabilities) and (ii) foreign currency assets and liabilities vis-à-vis euro-area residents. This complementary information is indeed an important indicator of a country’s ability to meet its foreign exchange obligations.

Following this reasoning, the ECB compiles and publishes each month on its website both Eurosystem and ECB data on international reserves and other related assets and liabilities, in line with the template entitled “International reserves and foreign currency liquidity”, which was set out in early 2000 in the IMF’s SDDS. This information covers not only data on official gross reserve assets of the ECB and the participating NCBs, but also covers other foreign currency assets readily available upon demand but not included in the category of official reserve assets, on the one hand, and predetermined and contingent short-term liabilities denominated in foreign currency, on the other hand. These other foreign currency assets mainly encompass foreign currency claims on residents of the euro area and claims not liquid enough to be considered as reserve assets. Regarding the predetermined and contingent short-term liabilities, they comprise financial instruments denominated in foreign currency that will, respectively, may, give rise to outflows of foreign currency over the twelve months ahead. This additional information is deemed relevant for assessing risk exposure in foreign exchange.

Regarding the underlying methodology applied for the compilation of the Template, it conforms to the guidelines provided by the IMF, with the exception of the treatment of claims arising from reverse repos vis-à-vis NCBs or private financial institutions, which are classified under currency and deposits instead of under other reserve assets.

VALUATION PRINCIPLES FOR EUROSYSTEM INTERNATIONAL RESERVES STATISTICS

Instruments included in reserve assets are valued on the basis of market prices by using (i) the prevailing market prices at the time when the transaction takes place for transactions and (ii) the closing mid-market prices at the end of the appropriate period for positions. Gold is valued at the closing market price prevailing at the end of the reference period. Contingent and predetermined reserve-related short-term liabilities are presented at nominal values.

PARTICULAR METHODOLOGICAL ASPECTS OF EUROSYSTEM INTERNATIONAL RESERVES STATISTICS

Holdings of monetary gold remain unchanged in all reversible gold transactions (gold swaps, repos, loans and deposits) as they are recorded following the ‘collateralised loan’ approach.

Foreign-currency-denominated repo transactions (including repos, securities lending and sell-buy-back transactions) are treated as collateralised loans in line with international statistical standards.

Finally, asset and liability positions in financial derivatives falling into the category of official reserve assets are netted out and classified under the Reserve assets/Other claims residual category. Assets and liabilities are not recorded separately.