

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 9

RESERVE RELATED LIABILITIES

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1. The fifth edition of the IMF's *Balance of Payments Manual (BPM5)* does not discuss the concept of monetary authorities' reserve-related liabilities. Nonetheless, data on reserve related liabilities are among those required for Fund surveillance and for program purposes, the idea of foreign currency drains was introduced in the *Reserves Template*, while users outside of the Fund have expressed interest in the reserve-related liabilities concept.¹

2. The paper asks whether the concept of monetary authorities' reserve-related liabilities should be introduced into the new Manual and if so, how it could be defined.

I. Current international standards for the statistical treatment of the issue

3. *BPM5* does not explicitly discuss either reserve-related liabilities or net international reserves of a monetary authority, although it does discuss "Liabilities Constituting Foreign Authorities' Reserves" (LCFAR). These are liabilities that are considered, from the viewpoint of the creditor, to be reserve assets (paragraph 447).

4. The associated *Balance of Payments Textbook (BPT)*, which was published in 1996, elaborates some issues on reserve-related liabilities in paragraphs 625-637.² The *BPT* states that, "A concept of reserve assets that includes selected liabilities (usually some or all of the external liabilities of a country's monetary authorities) permits a more comprehensive view of BOP financing" and "reserves assets and selected official liabilities are the financing (or accommodating) items of the net surplus or deficit resulting from above-the-line (or autonomous) transactions" (paragraph 626). However, the *BPT* considers that "in practice there will be a divergence from country to country regarding the type of claims that are considered reserves and reserve liabilities" (paragraph 629).

5. In 1998, during the period leading up to the development of the Data Template, Fund staff provided the IMF's Executive Board with a definition of reserve assets and related items in paper entitled "*Data availability, dissemination, and provision to the Fund*". The paper stated that "reserve-related liabilities can be defined as short-term external liabilities of the monetary authorities (including deposits, loans, securities, and other liabilities) denominated in both domestic and foreign currencies" (page 7). Such reserve related liabilities would be a subset of items in the balance of payments and international investment position (IIP).

¹ For instance, see Richard Erb: "The SDR: an international reserve liability", *Central Banking, Vol.XIV, No 3*.

² *BPT* paragraph 638-640 refers to LCFAR. *The Annotated Outline* for the revision of *BPM5* suggests discontinuing the classification of LCFAR "since it is considered to be impractical and has not been implemented" (paragraph 5.60). LCFAR is not discussed in this paper.

6. The *Data Template on International Reserves and Foreign Exchange Liquidity: Guidelines for a Data Template (Guidelines)*, published in 2001, does not use the term “reserve-related liabilities” as such, but Section II of the Data Template requires data on scheduled foreign currency obligations of the monetary authorities that are due in the 12 month period ahead. The intention is to compare “liquid” foreign currency assets with “short-term” foreign currency liabilities. Liabilities in domestic currency are excluded and flows not only cover those with nonresidents but also those with residents. Both gross inflows and outflows of foreign currency are presented, so providing information on short-term net drains (or inflows) of foreign currency (*Guidelines*, Chapter 3).

7. Further, in setting performance criteria (PC), the Fund commonly uses a net international reserves concept. Such a measure helps track developments in the balance of payments—a build-up in reserve assets through borrowing would provide mixed messages on the sustainability of the external situation—and serves as an indicator of liquidity pressures on reserve assets. There is no single definition used but essentially reserve liabilities have typically included foreign currency liabilities of the central bank (not central government, which are typically covered in PC under limits on debt) to both residents and nonresidents.

II. Issues arising from the current treatment

8. Since *BPM5*, and particularly since the financial crises of the late 1990s, there has been an increased interest in viewing reserves in the context of the associated liabilities. This is reflected in the Data Template and the continuing use of the reserve-related liabilities in surveillance and in PC criteria set by the Fund. Simply, viewing the gross level of reserves without identifying the associated liabilities could lead to a misinterpretation of the strength of the foreign currency position of the monetary authorities. Thus to aid users, it could be argued that the new *Manual* should incorporate some measures of reserve-related liabilities into its standard presentations. On the other hand, a reserve-related concept could be considered foreign to the balance of payments.

9. The introduction of a reserve-related liabilities measure and how it could be defined raises a number of difficult issues:

- *Should the measure be in the main body of the presentation or included as memorandum, thus required, item?* The advantage of including a category in the main accounts is that the reserve-related category would be given a very high profile. On the other hand, it would both limit the scope of the measure to items already in the balance of payments and IIP (so ruling out liabilities to residents, although these could be separately identified in a memorandum item) and lead to some difficult classification questions e.g., should all, or none, or part of foreign currency borrowing by general government be included. The latter could create problems of interpretation besides causing a significant disruption to the existing established categories. A required memorandum item could be more flexible in meeting user needs.

- *Should reserve related liabilities be covered in both the transactions and/or stocks?* If a reserve related item is to be included in the accounts then it would seem evident that there has to be a stock measure given the use of the stock of reserves data in monitoring external vulnerability. However, given that an exceptional financing item already exists in the transactions data and this covers more than transactions in reserve related liabilities, covering, for instance, transactions arising from debt reorganization, the issue of how the transactions data for exceptional financing and reserve-related liabilities would relate would arise. On the other hand, coverage in transactions would support the analysis of the stock data by providing information on factors behind the change in stocks.
- *Should the measure cover foreign currency liabilities only or also some in domestic currency as well?* If reserve assets can only include foreign currency assets, then it would seem appropriate to limit reserve-related liabilities to foreign currency liabilities. The treatment in reserve-related liabilities of instruments indexed to a foreign currency and of instruments settled in foreign currency but denominated in domestic currency need to be considered carefully and might differ from the approach for reserve assets.
- *Should the definition cover the monetary authorities as a whole or just the central bank?* For consistency with the balance of payments and IIP sectoral classification (and Data Template), and to compare like-with-like, a sectoral coverage consistent with that for reserve assets could be considered. The central bank and general government could be separately identified to take account of the possible different motivations behind their borrowing activities.
- *What liabilities should be included and should these be only those that are within the framework of the balance of payments and IIP?* One approach is to include all outstanding foreign currency liabilities, presented using the standard instrument classification in the balance of payments and IIP. One issue that arises is whether to include the market or notional values of derivative positions vis-à-vis foreign currency, and then on gross or net basis. The market value would be consistent with the approach in the accounts, whereas the notional amount would provide information on drains (but is not consistent with IIP framework). Given that forward derivative contracts are “traded” by creating offsetting contracts, a net rather than gross approach might be more appropriate.
- *Should the definition be restricted to transactions and positions with nonresidents only, or also include those with residents?* Including only liabilities to nonresidents would be consistent with the approach in the balance of payments and IIP, whereas including data on residents would not. However, in the *Guidelines* Section II covers both residents and nonresidents because the payments to both affect the foreign currency position of the

monetary authorities.³ Also, a measure that excludes residents is more open to “window dressing” as, for instance, residents could be persuaded to place foreign currency deposits with the central bank so boosting reserve assets while having no impact on reserve-related liabilities. These deposits would be included under a definition that covered residents.

- *What should be the relationship with the Data Template, in particular in relation to maturity?* Section II of the Data Template only covers liabilities falling due in the next 12 months. This provides an indication of the liquidity of the foreign currency position of the monetary authorities. This could be an approach to adopt with reserve-related liabilities. However, data covering all maturities—including IMF loans of all maturities—might help explain developments with reserve assets over time, particularly if a short-term split on a remaining maturity basis was included.

III. Possible treatments

10. Given the increasing interest in data on reserve liabilities, not least that arising from the introduction of the Data Template, consideration could be given in the new *Manual* to including a new category for reserve related liabilities as a memorandum item, for position data at least, covering foreign currency liabilities only.

11. Also, foreign currency liabilities to residents could be included in a memorandum item, either as part of a more widely defined reserve-related liabilities memorandum item or as a separately identified item if a reserve related liabilities category is included in the main account.

12. Beyond this, given that this would be a significant addition, it is proposed that RESTEG members provide their views on the various other issues raised in the previous section and once these are received further work could be undertaken by Fund staff to come up with more detailed specifications, if need be.

IV. Points for discussion

- *In principle, do group members support the proposal in paragraph 10?*
- *If so, do members support the position set out in paragraph 11?*
- *What are members views on the other issues raised in paragraph 9?*

³ If the data on liabilities covers residents as well as nonresidents then a case could be made for having a memorandum item covering the monetary authorities liquid foreign currency claims on residents, and those on nonresidents that are not included in reserve assets, that is a measure similar to Section I.B of the Data Template.

References

BPM5, paragraph 447

Balance of Payments Textbook, paragraph 625-637

Guidelines, paragraphs 119-125, and Chapter 3

Annotated Outline, paragraph 5.60

Richard Erb, "SDR: An International Reserve Liability," *Central Banking*, Vol. XIV, No 3, February 2004.