



STATISTICS

Globalization, IMF's Committee on Balance of Payments Statistics Perspective

**AEG Meeting
Washington D.C., USA
October 1, 2019**

Outline

- **Globalization and its impact on statistics**
- **IMF's Committee on Balance of Payments Statistics Initiatives**
- **Solutions within the Current Statistical Framework**
 - IMF's Balance of Payments Committee Initiative on Special Purpose Entities data collection
 - Global Value Chains
 - CIF-FOB valuation of imports/exports
 - Supplemental Information
- **Solutions beyond the Current Statistical Framework**
- **Implications and ensuing questions**

Globalization

WHAT DO ECONOMISTS MEAN BY GLOBALIZATION?



Increased economic integration of world economies



Reduction in trade barrier: Growing scale of cross-border trade



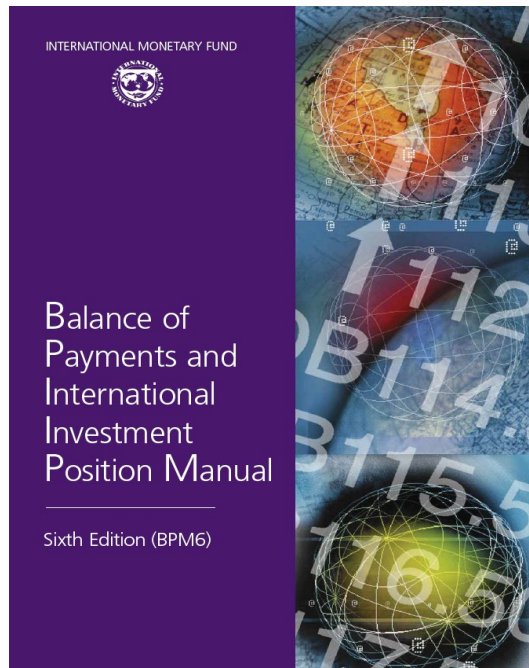
Production chains spanning to developing countries: opportunities to maximize production efficiency



Removal of restrictions on movement of capital: increased flows of capital

ADVANCEMENT ON SCIENCE AND TECHNOLOGY HAS RESULTED IN REDUCED COST OF COMMUNICATION AND TRANSPORT

Methodological Response to Globalization - ESS



- Almost a decade since *BPM6* was released.
- Three major themes emerged from the revision of *BPM6*:
 - Globalization
 - Balance sheet analysis
 - Digitalization and financial innovation
- Since 2009, global innovation has fostered new discussions.
- The complexity of compiling cross-border economic statistics has increased.
- Statistical complexities associated with:
 - MNEs, GVCs, profit shifting, intellectual property rights, etc.
 - Special Purpose Entities (SPEs)
 - E-commerce, Fintech and trade finance, crypto assets, etc.
- All these have long been recognized and discussed.

Some Globalization Issues under Discussion

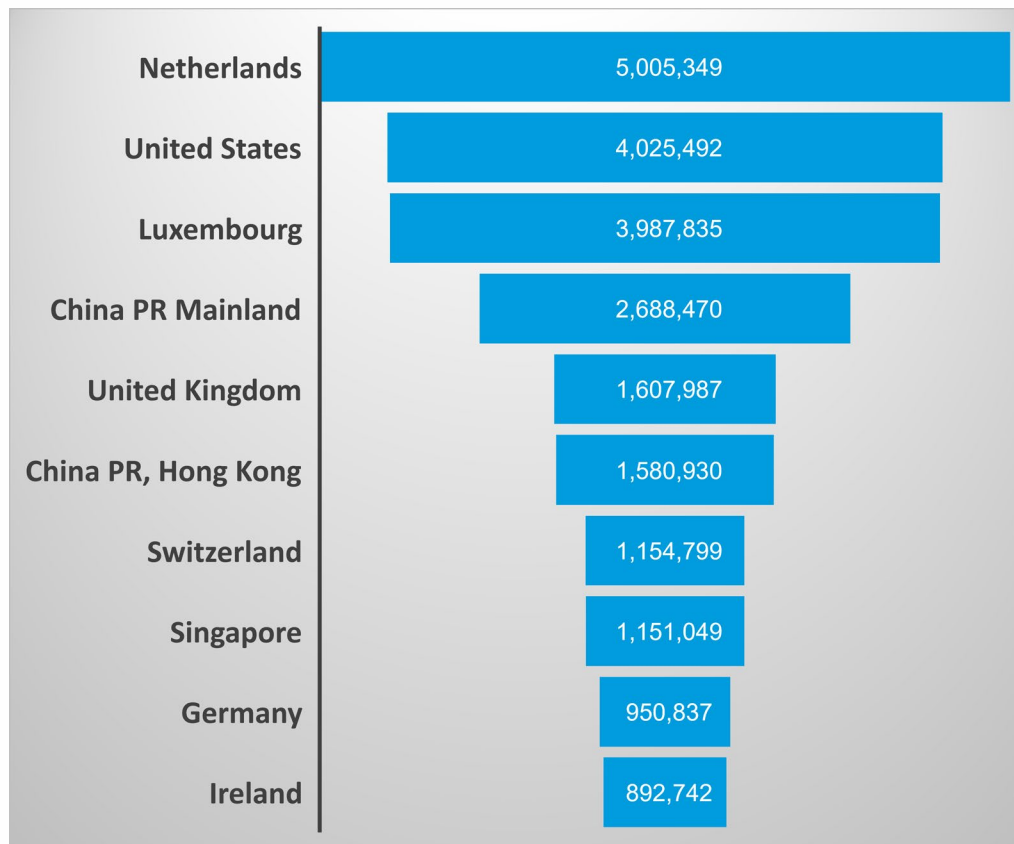
- The treatment of intra-MNE flows:
 - Transfer pricing
 - Use of SPEs within MNEs
 - Development and use of intellectual property products within MNEs – ease of relocation
- Evolution of SPEs beyond traditional financial set-ups.
- Economic ownership principle v/s legal ownership of IPPs
- Global Value Chains – fragmentation of production chains
 - How global production arrangements impact the measurement and interpretation of current account.
- All these statistical complexities are somewhat interrelated.

How Researchers, Policy-makers, Press are reacting to Published Statistics?

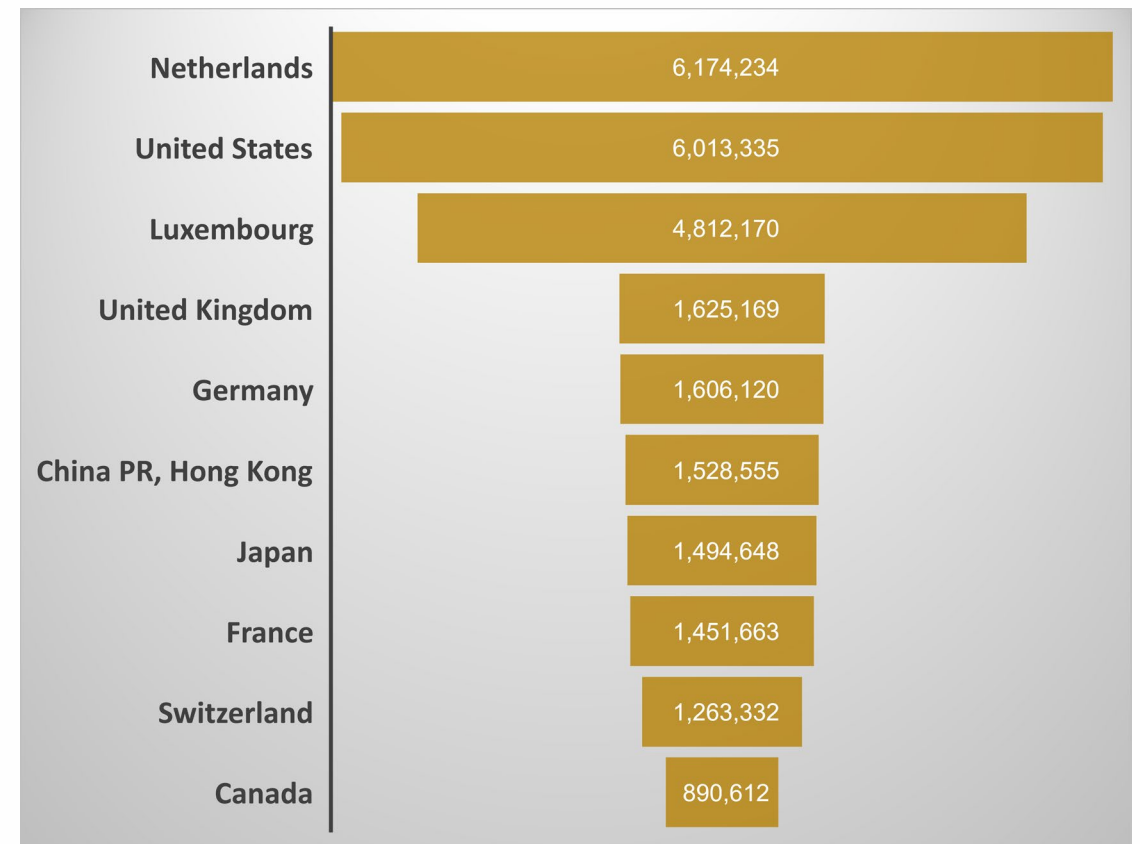
- “....Net DI inflows and outflows are highly correlated, suggesting that “measured” DI gross flows may reflect flows through rather than to the country...” Blanchard and Acalin, 2016
- “...Better data on real size of international production and its geographic and sectoral distribution are needed to obtain an accurate picture of DI...” Sauvart 2017
- “Phantom investment calls for an exorcism.... Statistics on foreign direct investment are no longer fit for purpose... More than third of foreign investment is multinationals dodging tax....” FT September 2019
- Direct Investment: IMF’s [Coordinated Direct Investment Survey results](#)
- Portfolio Investment: IMF’s [Coordinated Portfolio Investment Survey results](#)
 -cross-border movement of financial flows....exaggerated proportion to size of the economies...”

Direct Investment Positions: Top 10 Reporting Economies as at end-December 2017 (US\$ million)

Inward Direct Investment Position

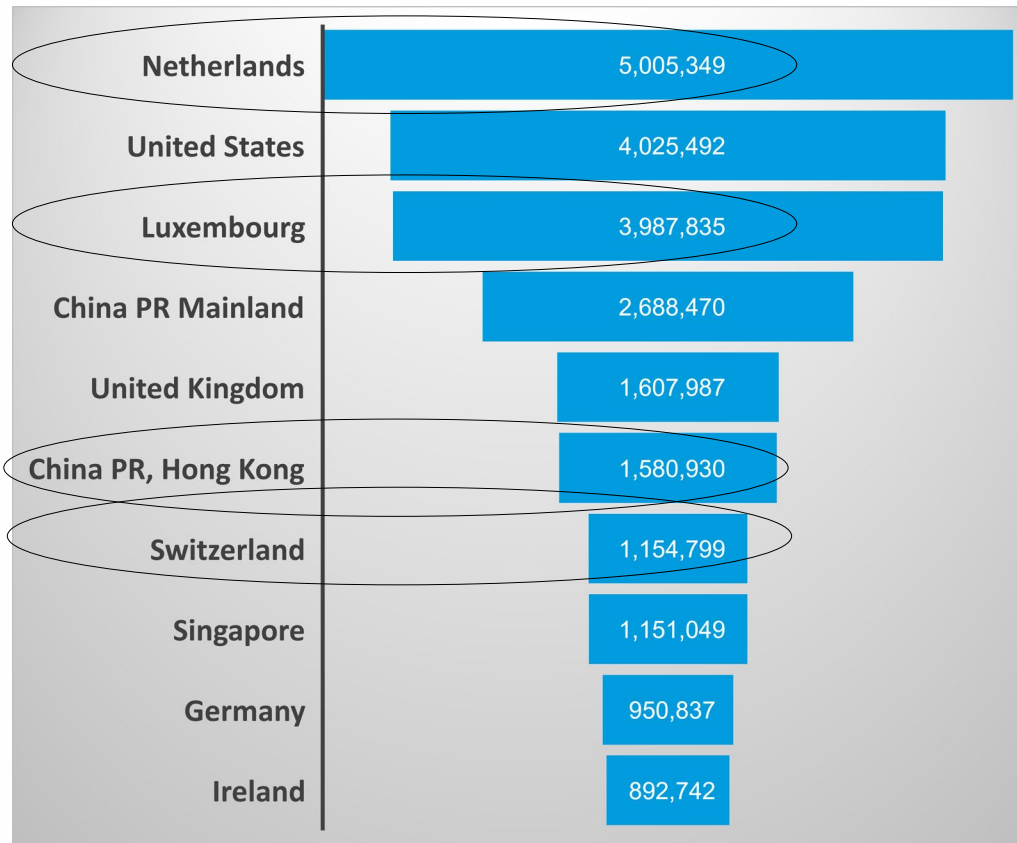


Outward Direct Investment Position

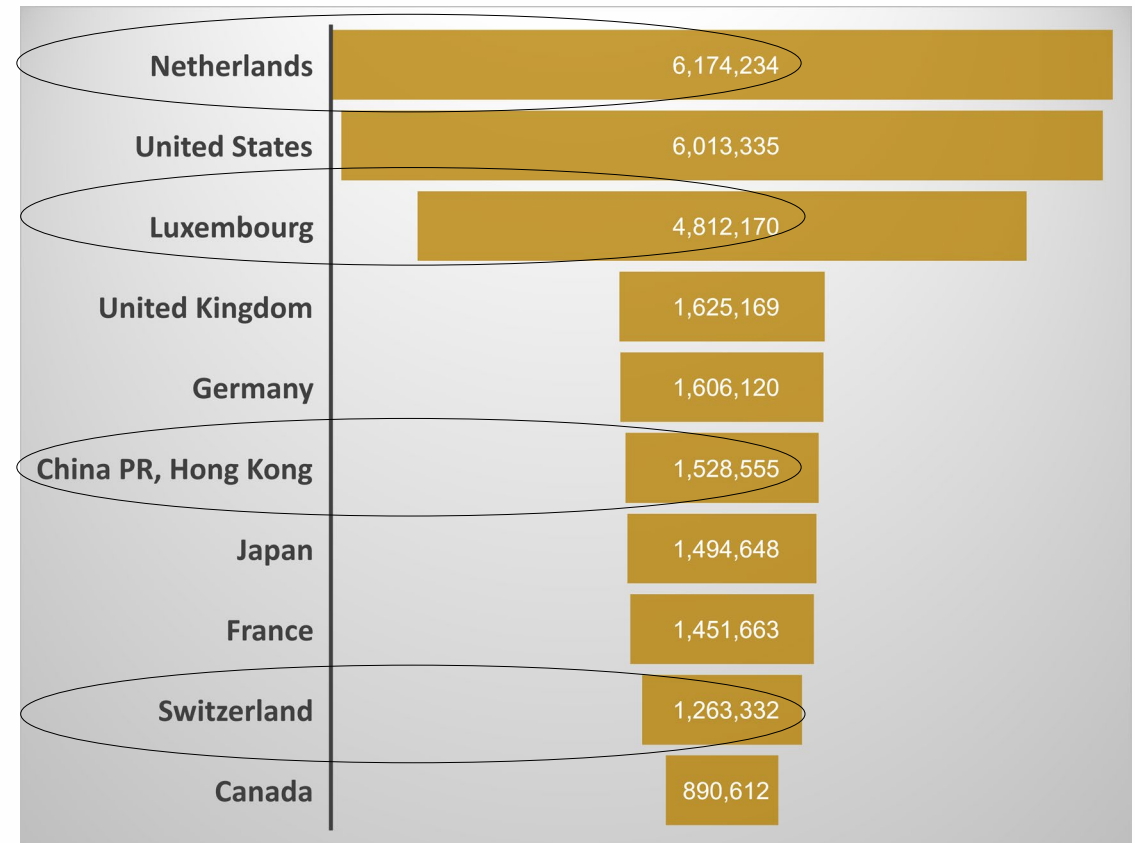


Direct Investment Positions: Top 10 Reporting Economies as at end-December 2017 (US\$ million)

Inward Direct Investment Position

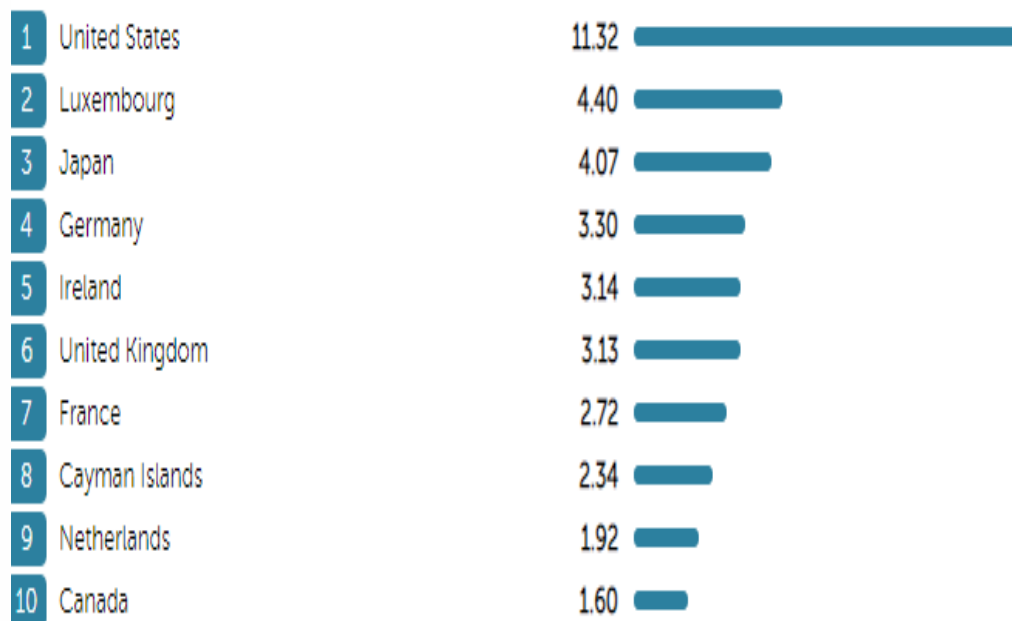


Outward Direct Investment Position



Portfolio Investment Positions: Top 10 Economies as at end-December 2018 (US\$ trillion)

Total Portfolio Investment Assets
Top 10 Reporting Economies
(Trillions USD), December 2018

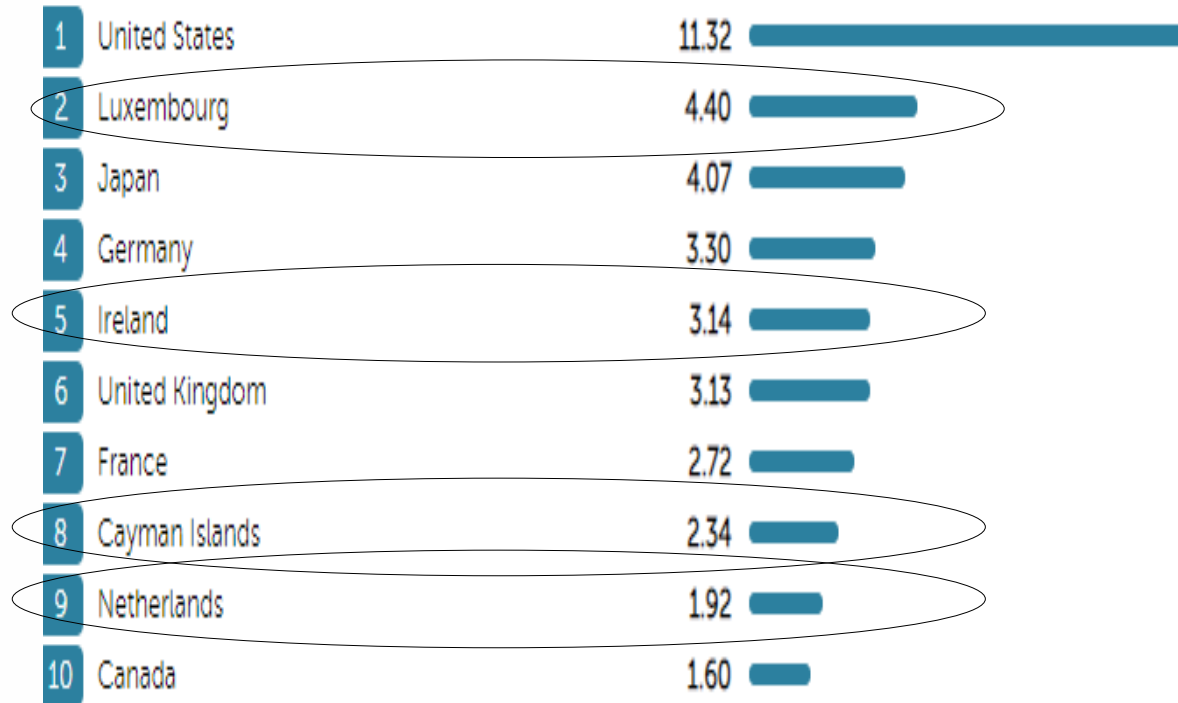


Derived Total Portfolio Investment Liabilities
Top 10 Economies (Derived from Creditor Data)
(Trillions USD), December 2018

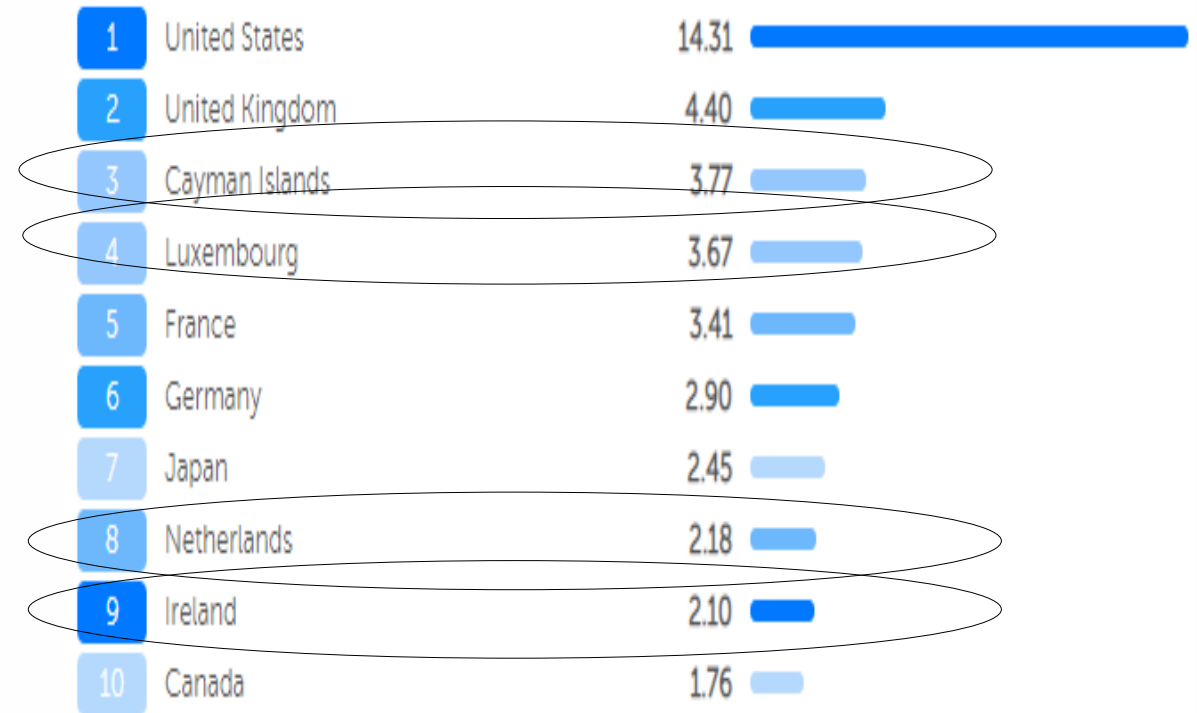


Portfolio Investment Positions: Top 10 Economies as at end-June 2018 (US\$ trillion)

Total Portfolio Investment Assets
Top 10 Reporting Economies
(Trillions USD), December 2018



Derived Total Portfolio Investment Liabilities
Top 10 Economies (Derived from Creditor Data)
(Trillions USD), December 2018



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- Globalization and its impact on statistics
- **IMF's Committee on Balance of Payments Statistics Initiatives**
- **Solutions within the Current Statistical Framework**
 - IMF's Balance of Payments Committee Initiative on Special Purpose Entities data collection
 - Global Value Chains
 - CIF-FOB valuation of imports/exports
 - Supplemental Information
- **Solutions beyond the Current Statistical Framework**
- **Implications and ensuing questions**

IMF's Committee on Balance of Payments Statistical Initiatives

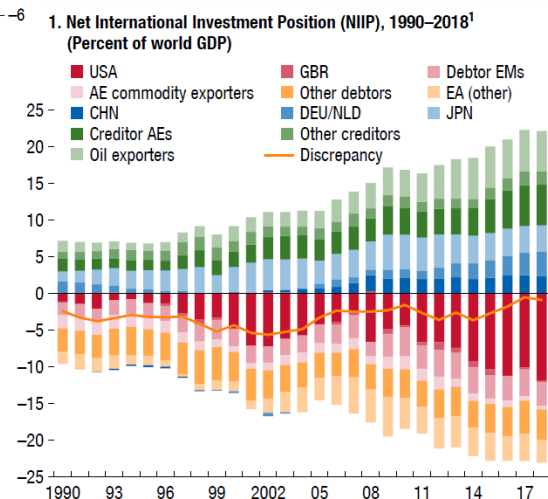
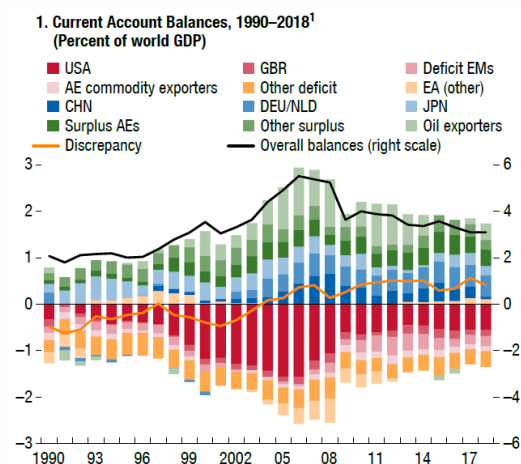
- BOPCOM advises the Fund to ensure global leadership on statistical methodologies and standards
- Over the last decade, BOPCOM's methodological work on ESS has been driven by:
 - Research agenda
 - Demand from Fund members for advice on statistical treatment of new phenomena
 - Negative interest rates, central bank swaps, crypto assets
 - Further clarification on existing guidelines **not implying changes to the text of BPM6**— several clarification notes posted on BOPCOM's website
 - Consistency across manuals or guides → **regular consultations with ISWGNA/AEG**
 - Users' request for disseminating separately identified data on SPEs

IMF's External Sector Surveillance

- **IMF's mandate to promote the stability of the international monetary system**
 - ▶ Requires understanding & monitoring of external imbalances
 - ▶ [IMF's External Sector Report 2019: The Dynamics of External Adjustment](#)
 - ▶ Not all external imbalances are risky, some even necessary
 - ▶ **Challenge is to distinguish excess from *healthy* imbalances**

- **What statistics are needed?**
 - ▶ Accurate measure of **current account balance**, especially **income balance**
 - ▶ Accurate measure of **IIP and its composition**
 - ▶ Statistical measures may not always give accurate picture of true external imbalances

External sector surveillance has become central in the last decade, amid large current account and NIIP imbalances.....



One of the issues raised by the IMF's surveillance work on the External Sector: treatment of retained earnings on portfolio equity

- ▶ Retained earnings rerouted to owner only in the case of foreign direct investment
- ▶ Same treatment not applicable to portfolio equity (nor to domestic-to-domestic relations)
- ▶ Many users consider that retained earnings on portfolio equity are perceived by investors as income and thus impact their savings investment decisions (e.g. Adler et al 2019 "[The Measurement of External Accounts](#)")
- **Should treatment be changed?** Needs careful consideration (e.g. on conceptual grounds, but also in terms of data availability)
- Should a similar treatment be considered in national accounts (as proposed by Reinsdorf et al 2017 "[Improving the Treatment of Holding Gains and Default Losses in National Accounts](#)")?
- Implication → if all retained earnings of corporations be re-routed to shareholders, corporate saving ratios would become zero by definition

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Special Purpose Entities

- In 2016, BOPCOM set up the TF-SPE:

Objective: “Develop *IMF statistical strategy* for addressing data gaps on SPEs, assess data collection approaches and disseminate *internationally-comparable ESS*.”

- SPEs not a new phenomenon – discussed in *BPM6*, *SNA 2008* and *BD4*.
- The current IMF’s methodological advice and operational guidance focus on including SPE flows and positions in ESS, with no emphasis on separately identifying them
- Insufficient guidance in the existing international standards

Although there is no internationally standard definition of SPEs, typical features of these entities are.....

• *BPM6, Paragraph 4.50*

A number of institutional units may be described as special purpose entities (SPEs) or special purpose vehicles. There is no common definition

• *SNA 2008, Paragraph 4.55*

SPEs: Growing Importance and Complexity

Traditional typology (as reflected in BPM6 and SNA2008)

Mostly set up by financial institutions for financial activities

Arrange worldwide borrowing and lending activities for MNEs

Narrow, specific financial activities, such as securitization

Mostly engaged in pass-through and round-tripping direct investment



Currently

Also nonfinancial entities involved in R&D, trade, and other activities for group-wide profit maximization

Reallocate the collection and distribution of royalties, license and other fees, profits, intellectual property products, etc.

Broad range of financial and non-financial activities, even some not "SPE-like"

Direct, portfolio and other investment, as well as current and capital account transactions

Perspective on SPEs

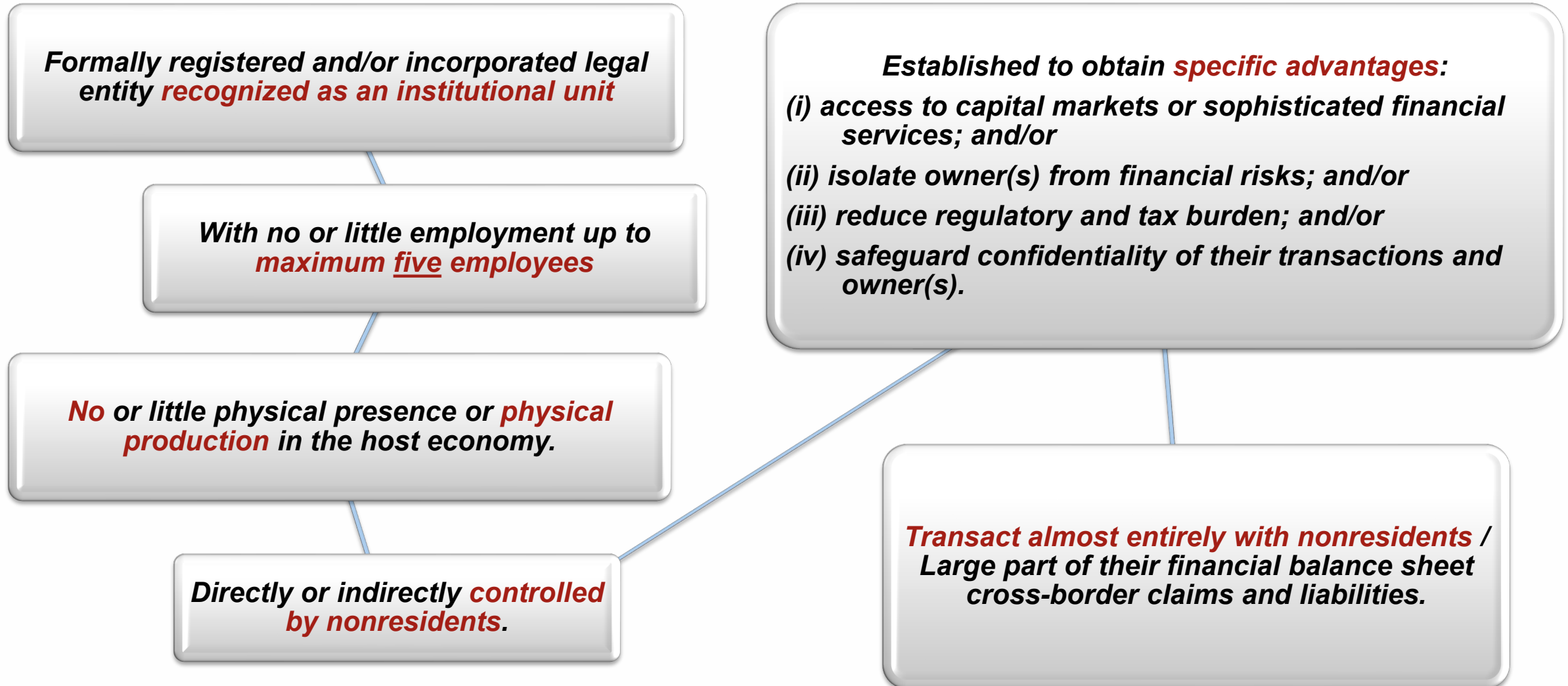
- SPEs are a **global phenomenon**: difficult (impossible?) to understand from a purely national perspective
- Understanding SPE implications requires an **internationally coordinated effort**
- First step, decide **measurement basis**: transaction-based (identifying pass-through capital) or institution-based (identifying SPEs)
- If the latter: an **internationally agreed definition** of SPEs is a necessary first step
- BOPCOM's SPE definition has already got wide consensus

IMF's BOPCOM Initiative on SPEs Data Collection

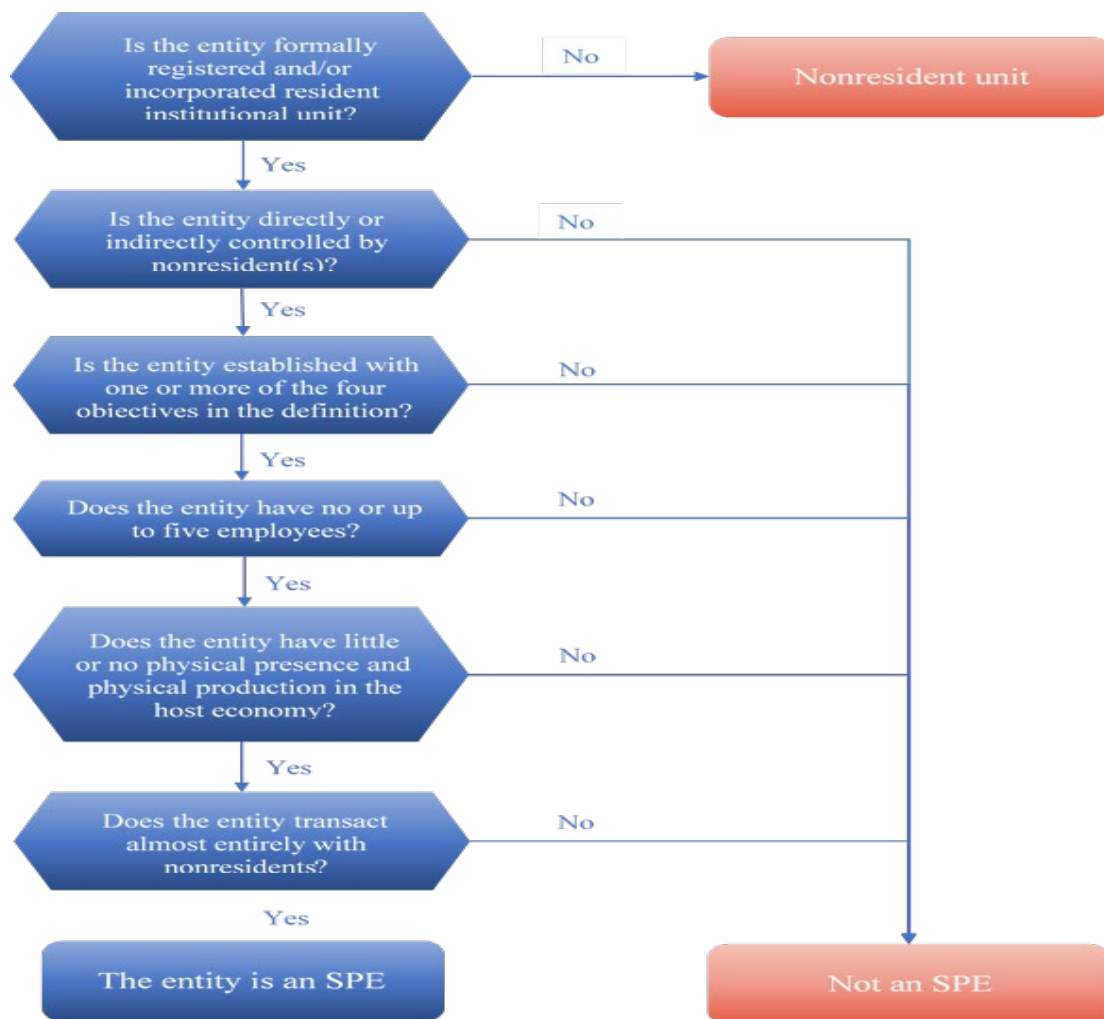
Three major recommendations endorsed in October 2018:

- An **internationally agreed definition of SPEs** in the context of external sector statistics (ESS)
- A **decision tree** and a **typology of SPEs**, to support the practical implementation of the proposed definition; and
- Plans to launch an international data collection to separately identify cross-border transactions and positions for SPEs: **In 2021 for 2020 annual data**

The need for a Definition of SPEs in the Context of External Sector Statistics



Operational Guidance: Decision Tree and Typology



Types of SPEs

- Conduits
- Holding Companies
- Intra-group lending
- Captive companies
- Securitization/Financial Vehicles
- Holding nonfinancial entities
- Factoring
- Operational Leasing
- Merchanting
- Royalty and Licensing
- Wealth companies
- Government SPEs
- Shell companies
- Shelf companies

SPEs Typology and Reporting Template

- **Typology of SPEs as a complement to the definition** – not meant to be either exhaustive or prescriptive:
 - Identify the SPEs and determine their appropriate institutional sector
 - delineate the different types of SPEs based on their economic functions
- **A reporting template to collect cross-border data for SPEs for a reduced number of BOP and IIP components beyond DI activities:**
 - Minimum versus an encouraged set of components.
 - Selected current account components and capital account beyond financial one, of which
 - Merchanting
 - Some components of services
 - Income account
 - gross acquisitions/disposals of nonproduced nonfinancial assets

Way Forward on the Collection Strategy

- IMF to start collecting separate BOP/IIP data for SPEs (based on BOPCOM's SPE definition) **as of 2021 for data referring to end-2020**
- An implementation plan for this data collection to be presented to BOPCOM in October 2019
- Compilers need **additional guidance** on how to apply the SPE definition to specific cases: countries implementing the definition an excellent starting point (Ireland, Luxembourg, Netherlands)
- While at this stage the focus is on resident SPEs, BEA's efforts to map investment in foreign SPEs is of high interest and very much supported

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Multinational Enterprises & Global Value Chains

- Fragmentation of production has created challenges in interpreting current trade related statistics. For example, **gross exports often contain significant foreign intermediate goods and services**.
 - ▶ Potentially distorting who really trades with whom, current measures of bilateral trade balances may need supplemental measures for optimal policy analysis.
- Made progress on certain issues that can be addressed *within the current framework* by providing *more supplemental or granular statistics*.
- IMF BOPCOM Working Group on Balance of Payments Statistics Relevant for GVCs, led by IMF and OECD.
 - ▶ Identified components in the current balance of payments framework that are relevant for developing GVC indicators.
 - ▶ At forthcoming BOPCOM's meeting (end-October), will make proposals to better identify the role of MNEs in current account transactions.

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CIF-FOB valuation of imports/exports

- Both BPM and SNA recommend FOB to value exports / imports, but
 - change in the treatment of the cost of transporting goods introduced in *SNA93* (maintained in *2008 SNA*) introduced an inconsistency between the FOB and basic price valuation between the two manuals
- Current guidance on recording:
 - *BPM6* uses FOB for goods, regardless of delivery terms;
 - *2008 SNA* uses actually-observed (contractual) price, allowing for a variety of recording bases
- Current discussion is the use of actual transaction (invoice) values when recording imports/exports in BOP/NA
- OECD/IMF has jointly undertaken a survey of countries
- Survey results will be presented at October 2019 BOPCOM meeting to seek feedback/decisions of members

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Supplemental Information Staying within the Boundaries of the Current Framework: What else did the BOPCOM TFSPE recommend?

- More **granularity**, whenever possible:
 - **Nationality-based presentation** of ESS as complement to the **standard residence-based ESS**
 - Supplementary data on direct investment positions according to **ultimate source and host economy**
 - Cross-border statistics on **non-resident SPEs** for economies that can collect these details
- **Minimum versus encouraged reporting**: breakdown for SPEs may only be relevant for some countries
- Current proposals do not cover pass-through via non- or near-SPEs.

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Issues Beyond the Current Methodological Standards (to be discussed in preparing BPM7)

- **Consolidate SPEs with the ultimate owner**
 - Should SPEs be considered as separate institutional units from their parents?
 - Allocates activities of affiliates abroad to economies where decisions are made (similar to treatment of embassies and consulates)
 - Conceptual and practical implications need to be considered
- **Treatment of IPPs**
 - Transferring ownership of IPPs within MNEs: economic versus legal ownership
 - How to determine the economic ownership of intellectual property (e.g. R&D)?
 - IPP holders may generate significant value added and have a true physical presence
- **Treatment of MNEs separately as ‘supranational’ organizations**
 - Analysis of MNE-behaviour requires looking at the complete picture, not the national parts
 - Supplementary tables on MNEs, in addition to the traditional monitoring of national economies

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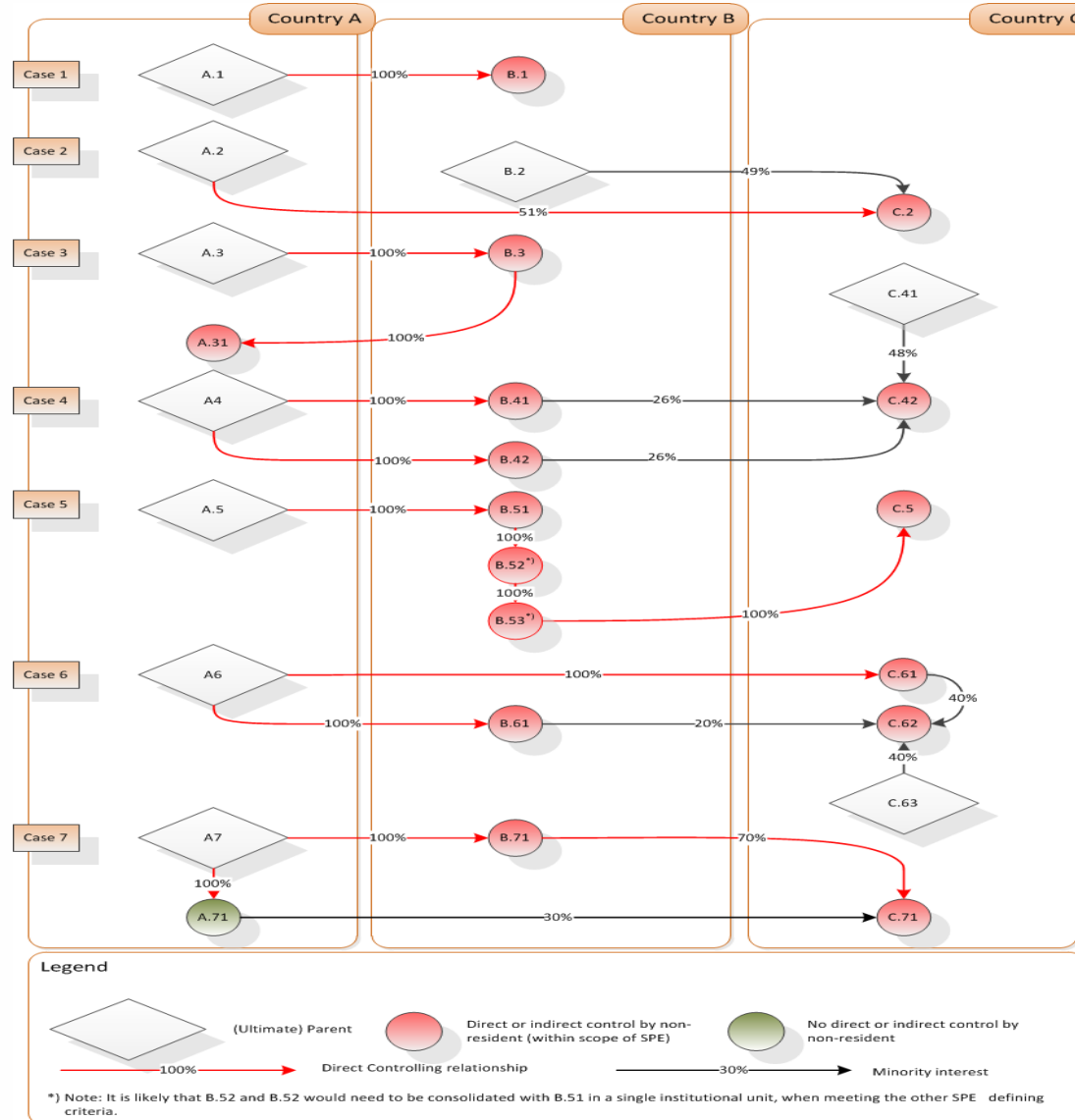
Implications and ensuing questions to be considered when updating SNA and BPM

- Do the core principles (institutional unit, residence, economic ownership, etc.) need to change to respond to the new demands?
- Can the core accounts respond to all challenges or should certain issues (e.g. nationality-based statistics, MNEs, GVCs, welfare) be considered via complementary extensions of the core framework?
- Should practical implications (e.g. data availability, response burden) play a role?
- Should standard components be different for countries with low statistical capacity?
- **Very strong interlinkages between NAs and ESS: how can we ensure full coordination now and when launching the process for updating the standards?**

Thank you!

Additional information

Ownership and Control of SPEs



Typology of SPEs—Practical Implementation of the SPE Definition

No	SPE Type	Description	2008 SNA	BPM6	2008 SNA sector
Category I: Corporate Groups' Captive Financial Entities					
<i>(Those captive entities created by a financial or nonfinancial nonresident corporate to fulfil specific financial activities, other than insurance, for the sponsor)</i>					
1.1	Conduits	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise. Typically, do not transact on the open markets on the asset side.	Para 4.59	Para 4.51, 4.86	S127
1.2	Holding companies	Owning a controlling level of equity in subsidiaries, without actively directing them (Passive holding corporations)	Para 4.59	Para 4.51, 4.81	S127
1.3	Holding financial assets for securitization			Para 4.51	S127
1.4	Intra group lending companies	Loan funding from and to intra group companies Entities taking and granting inter-company loans		Para 4.51	S127
1.5	Captive factoring & invoicing companies	Concentrating sales claims and invoicing sales.			S127
1.6	Captive financial leasing companies	Engaging in lease-in lease-out agreements or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets.		Para 4.83	S127
1.7	Other captive financial companies	Dealing with financial needs of a group, such as financing particular projects and loan origination.		Para 4.87	S127

Typology of SPEs—Practical Implementation of the SPE Definition (continued)

No	SPE Type	Description	2008 SNA	BPM6	2008 SNA sector
Category II: Specialized Financial Entities					
<i>(These financial entities, with a degree of operational autonomy, have been specially created to isolate the risks of the parent companies to structure financial transactions for or securitize assets of the parents)</i>					
2.1	Captive insurance companies	Providing insurance to group enterprises.		Para 4.88	S128
2.2	Securitization vehicles/Financial vehicle corporations	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking.	Para 4.59	Para 4.51 Para 4.77	S125
2.3	Holding fin. & nonfin. assets (including real estate) for related companies	Holding financial and nonfinancial assets of related companies with the goal of capital appreciation, interest/dividend income, and other income.			S11 and S125
2.4	Companies carrying out other financial functions	Performing factoring, invoicing on open markets, financial leasing on open markets, and other financial assets management.		Para 4.51 Para 4.76	S125
Category III: Corporate Groups' Nonfinancial Entities					
<i>(Created by a financial or nonfinancial nonresident entity to fulfil specific nonfinancial activities)</i>					
3.1	Ancillary companies	Registered or incorporated companies providing ancillary services that are not resident in the same economy as its parent.		Para 4.51	S11
3.2	Operational leasing companies	Holding fixed assets, such as planes, vessels, and machinery, for the purpose of leasing them out.			S11
3.3	Merchanting companies	Purchasing goods from a nonresident and re-selling the goods to another nonresident.			S11

Typology of SPEs—Practical Implementation of the SPE Definition (concluded)

No	SPE Type	Description	2008 SNA	BPM6	2008 SNA sector
3.4	Royalty and licensing companies	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks.			S11
3.5	Legal ownership of intangible assets	Holding intangible assets for a related company or group of companies.			S11
Category IV: Wealth management entities (Created by household entities or groups of individuals to hold or manage wealth or real estates for their owners)					
4.1	Companies holding /managing wealth & real estate for individ. and families	Managing family trust funds, foundations, personal holding companies.	Para 4.59	Para 4.51	S11, S127
Category V: Government Owned Financial Entities (Created by governments for fiscal activities)					
5.1	SPEs owned by governments for fiscal purposes	Raising or borrowing funds on behalf of a nonresident general government.		Para 8.24	S11, S12, or S15
Category VI: Other structures (Created to conduct any type of transactions other than those covered in the other categories)					
6.1	Shell companies	Passing-through funds between nonresidents with no operations in the economic territory of incorporation. Shell companies don't have employees, are not traded, and can be kept dormant.		Para 4.50	S11 or S12
6.2	Shelf companies	Empty corporation, registered in advance, minimum assets and liabilities.		Para 4.50	S11 or S12

Resident SPEs: Reporting Data Template (I)

Resident Special Purpose Entities: Cross Border Flows and Positions Template

Annual Reporting

	Balance of Payments		International Investment Position	
	Flows during the current year 20XX		Position as at end of current year 20XX	
I. Selected Financial Account Components	Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
Direct Investment as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
1 Direct Investment related to SPEs				
1.1 Equity and investment fund shares				
1.1.1 Equity other than reinvestment of earnings				
1.1.1.1 Direct investor in direct investment enterprises				
1.1.1.2 Direct investment enterprises in direct investor (reverse investment)				
1.1.1.3 Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				
1.1.2 Reinvestment of earnings				
1.2 Debt instruments				
1.2.1 Direct investor in direct investment enterprises				
1.2.2 Direct investment enterprises in direct investor (reverse investment)				
1.2.3 Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				
Portfolio Investment as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
2 Portfolio investment related to SPEs				
2.1 Equity and investment fund shares				
2.2 Debt securities				
<i>Short-term</i>				
<i>Long-term</i>				
Other Investment as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
3 Other Investment related to SPEs				
<i>Short-term</i>				
<i>Long-term</i>				
Financial Derivatives as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
4 Financial Derivatives related to SPEs				

Resident SPES: Reporting Data Template (II)

Resident Special Purpose Entities: Cross Border Flows and Positions Template

	Annual Reporting	
	Balance of Payments	
	Flows during the current year 20XX	
II. Selected Capital Account Components related to SPEs	Credit	Debit
Gross acquisitions (Dr)/disposals(Cr) of non produced nonfinancial assets as reported in BOP	Total to be drawn from BOP	
⁵ Gross acquisitions (Dr)/disposals(Cr) of non produced nonfinancial assets related to SPEs		
III. Selected Current Account Components related to SPEs	Credit	Debit
6 Net exports of goods under merchanting by resident SPEs		
7 Selected Services		
7.1 Transport		
7.2 Financial services		
7.3 Charges for the use of intellectual property		
7.4 Other business services		
7.5 Other services		
Investment income as reported in BOP	Total to be drawn from BOP	
8 Investment income related to SPEs		
Direct investment income as reported in BOP	Total to be drawn from BOP	
8.1 Direct investment income related to SPEs		
8.1.1 Dividends		
8.1.1.1 Direct investor in direct investment enterprises		
8.1.1.2 Direct investment enterprises in direct investor (reverse investment)		
8.1.1.3 Between fellow enterprises		
<i>if ultimate controlling parent is resident</i>		
<i>if ultimate controlling parent is nonresident</i>		
<i>if ultimate controlling parent is unknown</i>		
8.1.2 Reinvested earnings		
8.1.3 Interest related to SPEs		
8.1.3.1 Direct investor in direct investment enterprises		
8.1.3.2 Direct investment enterprises in direct investor (reverse investment)		
8.1.3.3 Between fellow enterprises		
<i>if ultimate controlling parent is resident</i>		
<i>if ultimate controlling parent is nonresident</i>		
<i>if ultimate controlling parent is unknown</i>		
Portfolio investment income as reported in BOP	Total to be drawn from BOP	
8.2 Portfolio investment income related to SPEs		
8.2.1 Dividends		
8.2.2 Reinvested earnings		
8.2.3 Interest		
Other investment income as reported in BOP	Total to be drawn from BOP	
8.3 Other investment income related to SPEs		
8.3.1 Interest		

Minimum
Encouraged