BALANCE OF PAYMENTS TRANSACTIONS/POSITIONS IN THE NATIONAL DATA FOR A MEMBER COUNTRY OF A CENTRALIZED CURRENCY UNION: NUMERCIAL EXAMPLE

A. Opening period

Let us assume that A and B are the only members of the CU and that the opening position is as follows:

CUCB balance sheet

Assets / Liabilities

Assets		Liabilities	
Foreign assets (reserve assets)	500	Banknotes	1600
Claims on CU residents assets	1500	Deposits of CU banks	400
Total	2000	Total	2000

The creation of a monetary authority in each country entails the distribution of domestic assets (credit to governments and banks) and liabilities (banknotes) to the relevant countries as follows:

National Agency balance sheet

Country A

Assets		Liabilities	
Net claim on CUCB (reserve assets)	300	Banknotes	1000
Domestic assets (residents of country A)	950	Bank deposits (residents of A)	250
Total	1250	Total	1250

National Agency balance sheet

Country B

Assets		Liabilities	
Net claim on CUCB (reserve assets)	200	Banknotes	600
Domestic assets (residents of country B)	550	Bank deposits (residents of country B)	150
Total	750	Total	750

The CUCB has foreign assets of 500, which in this instance are all reserve assets, the total reserves for the union. In turn, the net claim[1] of the national monetary authority on the CUCB represents the foreign assets (again all reserve assets in this instance) of the country: A and B have reserve assets of 300 and 200, respectively.

In this example, it is assumed that the CUCB has no assets and liabilities on "own account" i.e., no assets or liabilities that do not reflect positions with the national economies.

[1] Net is meant in terms of the difference between the assets and liabilities.

B. Period 1

During the time period 1, the following operations take place :

Period 1 : A imports 100 of goods from Spain (not a member of the CU) which are paid in foreign exchange (euros)

Typically, the resident of A will acquire the foreign currencies he needs from the CUCB, through his domestic bank. The transactions are as follows:

- The bank account at the importer's resident commercial bank is debited (100) and the importer acquires foreign currency (100).
- The commercial bank acquires foreign currency from the CUCB (100) and the commercial bank's account at the CUCB is debited (from 250 to 150).
- The CUCB's draws down its reserve assets (from 500 to 400).
- Net claims of country A on the CUCB decline due to the debiting of the commercial bank's account. This decline in net claims reflects transactions in reserve assets (from 300 to 200).

So under the proposed treatment, imports increase with the counter-entry in reserve assets. The BOP transactions and the balance sheet of country A would be as follows :

BOP country A

	Credit	Debit
Current Account		
Goods		100
Financial Account		
Reserve assets	100	

National agency balance sheet

Country A

Assets		Liabilities	
Net claim on CUCB (reserve assets)	200	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	150
Total	1150	Total	1150

C. Period 2

A exports the same goods to B for an amount of 120 domestic currency

The transaction is settled in domestic currency through the banking system. The transactions are as follows:

- The resident importer's bank in B settles in domestic currency with the exporter's bank through their accounts at the CUCB. So B's commercial bank account at the CUCB is debited (from 150 to 30) while A's commercial bank account is credited (from 150 to 270).
- Net claims of country A on the CUCB increase (from 200 to 320) due to the crediting of the commercial bank's account and net claims of B decline (from 200 to 80) due to the debiting of the commercial bank's account.
- The transaction is neutral for the CUCB as a whole, but does affect the intra-CU composition of net claims on the CUCB, which in this instance is reflected in changes in reserve assets.

In the proposed treatment of the BOPs of A and B, the entries would be as follows :

	BOP country A		***BOP country B***	
	Credit	Debit	Credit	Debit
Current Account				
Goods	120			120
Financial Account				
Reserve assets		120	120	

National Agency balance sheet

Country A

Assets		Liabilities	
Net claim on CUCB (reserve assets)	320	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	270
Total	1270	Total	1270

National Agency balance sheet

Country B

Assets		Liabilities	
Net claim on CUCB (reserve assets)	80	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	30
Total	630	Total	630

D. Period 3

B exports the same goods to Nigeria (not a member of the CU) for the amount of 150

The transaction is settled in foreign currency.

- Then the resident of B sells its foreign exchange receipts his resident commercial bank in B and his account is credited (150).
- The commercial bank sells foreign currency to the CUCB (150) and the commercial bank's account at the CUCB is credited (from 30 to 180).
- The CUCB's increases its reserve assets (from 400 to 550).
- Net claims of country B on the CUCB increase due to the crediting of the commercial bank's account.

So under the proposed treatment, exports increase with the counter-entry in reserve assets. The BOP transactions and the balance sheet of country B would be as follows:

BOP country B

	Credit	Debit
Current Account		
Goods	150	
Financial Account		
Reserve assets		150

National agency balance sheet

Country B

Assets / Liabilities

Assets		Liabilities	
Net claim on CUCB (reserve assets)	230	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	180
Total	780	Total	780

E. CONCLUSION

At the end of period 3, the balance of payments of A and B show the following entries :

	Country A		***Country B***	
	Credit	Debit	Credit	Debit
Current Account	120	100	150	120
Financial Account				
Reserve assets		20		30

These transactions result in an increase of the reserves assets of the CUCB of 50 and its' balance sheet has changed as follows :

CUCB balance sheet

Assets		Liabilities	
Foreign assets (reserve assets)	550	Banknotes	1600
Claims on CU residents assets	1500	Deposits of CU banks	450
Total	2050	Total	2050

National Agency balance sheet

Country A

Assets		Liabilities	
Net claim on CUCB (reserve assets)	320	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	270
Total	1270	Total	1270

National Agency balance sheet

Country B

Assets		Liabilities	
Net claim on CUCB (reserve assets)	230	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	180
Total	780	Total	780