EUROPEAN CENTRAL BANK

THE DEVELOPMENT OF STATISTICS FOR ECONOMIC AND MONETARY UNION

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Foreword

The development of European economic and financial statistics in the last decade has been remarkable – indeed, nothing less than a silent revolution. Economic and Monetary Union, itself a striking economic policy initiative, could not have taken place without it. While many improvements have been made since January 1999, and even now unfinished business remains, the ECB has not been constrained in making policy decisions by a lack of data of sufficient quality.

This book records the statistical preparations for Economic and Monetary Union in the period 1992-98, and enhancements undertaken in the light of experience in the following five years. Peter Bull was closely involved in the work almost throughout these 12 years, and was directly responsible for it for a large part of the time. His involvement began at the start of the planning phase, initially representing the Bank of England. He joined the European Monetary Institute as Head of Statistics in 1994, and was Director, then Director General, responsible for statistics in the ECB from 1998 until his retirement in 2002.

The book provides a thorough factual account of these developments. I am convinced of the importance of recording this historic work for the benefit of those, in Europe and elsewhere, who take a professional interest in the production and use of statistics for monetary policy and other central bank functions, and for a wider readership interested in what the formation of an economic and monetary union in modern conditions involves. I am particularly pleased that publication coincides with enlargement of the European Union, since the new Member States are affected by these developments but until recently have had little or no involvement in them.

Many themes run through this record of events. Among them is the importance of cooperation and coordination among statistical agencies, with a clear allocation of tasks to avoid wasted effort, unnecessary burden on reporting agents, and competing data. One of the first tasks was to organise this at European level. The arrangements made in 1995 have stood the test of time, and the updated Memorandum of Understanding between the ECB and the European Commission signed barely a year ago still reflects them. This coordinated effort – which constitutes another theme running through the book – has focused on statistics relating to the euro area as a whole, which are clearly the most important in enabling the ECB to perform its functions under the Treaty. I would also like to say that I believe firmly in the independence of the statistical function within the ECB. Statisticians must pay close attention to the needs of potential users of their products, as they did throughout this period; but in the actual production, presentation and dissemination of statistics, they must be free to act in an entirely disinterested way if their work is to command credibility. I believe that ECB statisticians have managed to keep this balance between responsiveness to user needs and operational independence.

At the end of my mandate as Executive Board member holding the statistics portfolio and member of the ECB's Governing Council, I wish to take this opportunity to thank Peter Bull for his decisive contribution to the development of ECB statistics. In the process he built an excellent, strongly motivated team working to very high standards of prudence, transparency, efficiency and independence. Writing this important book is only his latest – and certainly not his most prominent, nor, I hope, his last – contribution to the work. Towards me as Executive Board member, and in the ECB more widely, he was unfailingly loyal, understanding, and calmly proficient in often difficult times. He made my task much easier than it might have been, paving the way for further ambitious achievements in the ECB's statistical work under his successor, Steven Keuning.

Frankfurt am Main, May 2004

Eugenio Domingo Solans

Author's Preface

The adoption of the euro as their common currency by eleven, now twelve, European countries, among them three of the then six largest economies in the world, is one of the most striking economic policy developments of recent decades. In the process they entrusted monetary policy and certain other functions to a new central bank. This book is about the work to equip the new institution with the statistical information needed to carry out its functions.

The importance of good statistics to support the conduct of monetary policy in the single currency area was acknowledged from the start. Thus the Treaty on European Union (the Maastricht Treaty, signed in February 1992) gave statistics a prominent place in the preparatory work of the European Monetary Institute (EMI), established in January 1994, and in the continuing tasks of the European Central Bank (ECB), the successor to the EMI from June 1998. In his foreword to a booklet presenting statistical requirements for Economic and Monetary Union in July 1996, the President of the EMI, Alexandre Lamfalussy, began with the words "Nothing is more important for monetary policy than good statistics".

Shortly after the Maastricht Treaty was signed, central bank governors appointed a statistical working group. Central banks then began substantive preparatory work. This book describes the development of statistics for what became the euro area over a period of seven years (1992-98), the experience of using them, and the enhancements undertaken in the light of that experience in the five years after the adoption of the euro. While the focus is on the areas for which the EMI/ECB took responsibility, alone or shared with the European Commission, relevant economic statistics in the Commission's (Eurostat's) field of responsibility are also covered.

My initial purpose in preparing this document was to describe and explain these developments for the benefit of readers with a professional interest in statistics relating to the euro area, including economists as well as statisticians. This group includes my former colleagues in the ECB and European central banks and elsewhere, as well as a wider group of users of statistics for analytical purposes. For those who have been active in this area throughout the period, I hope that the book provides a comprehensive survey and a reminder of their pioneering work. Perhaps a more important service is to acquaint those who have come to this field more recently with the origins of the very substantial, though even now incomplete, body of data currently available. Particularly important in this group are statisticians and economists in the ten new Member States which joined the European Union (EU) in May 2004, since the developments described affect them in important ways, yet their involvement in them has been only recent. A similar point applies to countries that did not enter the EU in 2004, but nevertheless hope to do so in due course.

The work described here is also relevant to those outside Europe who are considering some kind of economic and monetary union. Additionally, the book may be of interest to a wider group of readers who, although not professionally involved in developing and using statistics, want to know something of what establishing an economic and monetary union in modern conditions involves. Monetary unions have been formed in the past without elaborate statistical, or indeed other, preparations. An assumption in planning for this single currency area, however, was that policy analysts and decision-makers in the future ECB would want much the same statistical information – allowing for the inevitable limitations of back data – as their counterparts in other leading central banks, with comparable quality, frequency and timeliness. Adding up existing national data would not have achieved this aim. On the contrary, an extensive programme of harmonisation and other work was needed to prepare data suitable for aggregation across the future single currency area.

I was involved in the work from the beginning until my retirement from the ECB in 2002, initially as Bank of England representative in the relevant committees, and from 1994 as Head of Statistics in the EMI and subsequently in the ECB. I was Chairman of the ESCB's[1] Statistics Committee from September 1998 to September 2002. Traces of this personal involvement, and for much of the time direct responsibility for the developments described, may have seeped into this document. I have nevertheless tried to keep it factual, believing that an objective account will be most useful to present and future readers.

Perhaps I might nevertheless be permitted a few observations here which may help to highlight themes that run through the document. One major complication was that statistical preparations, which take a long time, had to start some years before the composition of the future single currency area could be known, and before the policy strategy of the ECB (and the means it would use to carry this strategy out) could be determined other than in broad terms. There was a serious risk of wasted effort or failure to meet what might have turned out to be essential needs. These uncertainties were probably inevitable in the European context of the time. To the extent that architects of future monetary unions can avoid them, they would be advised to do so. By contrast, the deadline in the Treaty (January 1999) helped the planning and implementation considerably. Without it – given the different starting points, economic and financial structures and policy preoccupations of the EU Member States – it would have been far harder to resolve the many controversial issues and build a coherent system.

Is the outcome in fact a coherent body of statistical information? I believe that it is, or is as close to being one as was feasible. Of great help here was the work on revising world and European statistical standards, most of it well advanced by the time preparations for Economic and Monetary Union got under way. Right from the start in 1992, and with the support of potential users of euro area statistics, the Working Group on Statistics, and later the Statistics Committee, sought to conform to these standards so far as was practicable in developing and then enhancing statistics for the conduct of monetary policy. The later development of quarterly Monetary Union Financial Accounts, even in incomplete form, has provided a powerful instrument for coherence. I might add though that data conforming to statistical standards and designed to meet the needs of monetary policy do not fully match some other central banking needs, notably in the area of financial stability and banking structures. It was right to give priority to the monetary policy need and to adhere to international statistical standards. Indeed the Committee of Governors mentioned only the monetary policy requirement in their mandate to the Working Group. The consequence was however a later need to adapt the data for use in other policy-related applications, and to search out supplementary sources.

In developing statistics for the single currency area, the EMI and the Working Group on Statistics confined the initial provision to what were considered to be the bare

[1] The European System of Central Banks, comprising the ECB and central banks in the European Union.

essentials, taking care to consult potential users along the way. Corners were cut with the intention of later improvement. Despite the uncertainties mentioned above, little of what was prepared proved to be redundant, and there was (just about) enough statistical information to meet essential monetary policy needs from the start. Much effort, perhaps out of proportion to the final importance of the issues, was devoted at a critical time to the criteria for identifying money market funds and to statistics for measuring the reserve base of institutions which might be subject to minimum reserve requirements. The common element here was that the information would, or might, have an administrative use in applying a quasi-tax on banking activity. In the event, money market funds, though part of the banking (monetary financial institution, or MFI) sector, were not subject to minimum reserve requirements, which were in any case not onerous, being imposed at a low rate with remuneration at close to market interest rates. There are strong reasons (e.g. coherence, reducing the reporting burden) for using the same data for administrative purposes and for compiling statistical aggregates; nevertheless, the prospect of administrative use of data, with uncertainty about how burdensome the tax represented by reserve requirements might be, complicated the development of the statistics concerned. In the circumstances, it is difficult to see how this situation could have been avoided, given the EMI Council's practical decision in 1995 that the obligation to hold minimum reserves, if any, would be calculated from MFI balance sheet returns, and given that the scope, instrument coverage and other features of a minimum reserve system (and whether there was to be one at all) were to be decided upon by the ECB's Governing Council and therefore could not be known until late in the implementation phase.

The potential administrative use of data, and associated confidentiality questions, proved to be the most controversial issue in developing the legal framework for ECB statistics. Readers accustomed to less formal arrangements for collecting statistics may be surprised at the space devoted to legal preparations in this document. The reason is that legal instruments are often necessary to achieve satisfactory standards and equal treatment across numerous Member States. That said, it will be apparent that the ECB has refrained from imposing legal requirements in many areas of statistics, relying instead on less formal arrangements, and has allowed some diversity of practice within the legal requirements. The tendency, though, is towards more use of legal instruments and tighter specifications within them.

Statistics collected and compiled by the ESCB – money and banking and financial markets statistics, balance of payments (b.o.p.) and related statistics, and financial accounts – have attracted occasional public criticism. Perhaps understandably, regular users of the data in the ECB, and ECB statisticians themselves, have been more conscious of shortcomings, though none of them, except perhaps the need to identify non-resident holdings of negotiable monetary instruments which required urgent attention, have proved to be critical. It took longer than expected to implement the short-term approaches for securities issues and non-monetary financial intermediaries, partly because in practice very little preparatory work was possible before Stage Three started. In the area of monetary statistics, a developing interest in (mainly monthly) sectoral analysis of broad money and credit could not be quickly satisfied. The wish for a monetary presentation of the b.o.p., which might have been anticipated and accommodated in the initial provision of statistics for Stage Three, took some time to meet. While the first financial accounts for the euro area could not have been available in 1999, we would have hoped to provide them before spring 2001. As the last chapter makes clear, there were still at the end of 2003 improvements to be made in ECB statistics. Shortcomings in other macroeconomic statistics relating to the euro area (what this document calls "general economic statistics") have given rise to more public comment. Although cooperation between the EMI/ECB and Eurostat has always been close and constructive, and the CMFB[2] has provided an excellent forum in which they and central bank and other national statisticians can discuss matters of common interest, in practice it was clear even in 1997 that provision in this area – with some exceptions, notably harmonised consumer prices – would be barely adequate to meet even the most minimal needs of monetary policy. Despite successful efforts since, including high-level political intervention and well-directed pressure from the Monetary Committee and its successor, the Economic and Financial Committee (EFC), which have brought about improvements, shortcomings remain in general economic statistics for the euro area. I underestimated the difficulties in the preparation phase; it seemed to me to be enough to set out an almost self-evident need, as indeed the July 1996 implementation package did. In practice it appears that competing national and other European needs, inadequate resources in some statistics offices, and, perhaps inevitably, a less lively appreciation of the statistical needs for Economic and Monetary Union than was to be found in central banks, together with a less cohesive structure for achieving them, meant slow progress. It may also be the case that Eurostat needed time to make some shift of emphasis from low-frequency, detailed structural statistics to higher-frequency conjunctural indicators. A decision taken in late 1995, although not by statisticians, to postpone implementation of the ESA 95 to early 1999, shortly after the launch of Economic and Monetary Union, was inauspicious. For whatever reasons, ECB statisticians and Eurostat have struggled to provide adequate general economic statistics for policy use in the early years of Economic and Monetary Union.

Part A of this document describes the statistical preparations for Economic and Monetary Union in the seven years 1992-98. Part B concerns the experience with the statistics in the following five years (1999-2003), and the improvements made in the light of that experience. The introductory and overview sections (Chapter 1 for Part A, Chapter 23 for Part B) summarise the work. Very briefly, 1992 was spent establishing which areas of statistics the future EMI and ECB would be responsible for at European level, and eliciting user requirements. Statisticians spent much of 1993-95 evaluating existing national statistics and identifying the gaps to be filled and other work necessary for coherent aggregates that meet user needs. The release of a full statement of statistical requirements in July 1996 marked the start of an implementation phase, during which the EMI developed the legal and technical structure to support statistics for the single currency area. The statistical information was just about sufficient to enable the ECB in the second half of 1998 to complete its policy preparations for the launch of the euro in January 1999. Statisticians then began a programme of consolidation and enhancement, replacing or reinforcing short-term approaches, remedying deficiencies in the light of experience, and responding to new policy and analytical needs. Most of the work was devoted to developing new or better statistics; some of it went into a better infrastructure in the broad sense. Highlights include strengthened banking (MFI) balance sheet and interest rate statistics, the first financial accounts for the euro area, and fuller data on the

[2] Committee on Monetary, Financial and Balance of Payments statistics, set up by (EU) Council Decision in 1991.

international investment position, soon to increase to quarterly frequency. As in the preparatory period, much of the work was done in cooperation with Eurostat and international organisations, especially the IMF and the BIS.

The last two chapters concern EU enlargement, and remaining unfinished business. Although a very large body of euro area statistics was available by the end of 2003, it still could not be said that the information at the disposal of the ECB was fully comparable with that available to other leading central banks. The concluding chapter accordingly looks at plans to develop further the statistics available to the ECB.

Acknowledgements

The work described in this document has demanded sustained effort from many people. They include my former statistician colleagues in the EMI and ECB; members of the EMI's Working Group on Statistics and the ECB's Statistics Committee, and those who support them in their central banks; staff in Eurostat; and government statistician members of the CMFB and of Eurostat's committees in the areas of interest to the EMI/ECB. I should also acknowledge valuable input over these years from statisticians in international organisations, especially the IMF and the BIS, and from users of statistics, especially economist colleagues in the EMI/ECB and their counterparts in the national central banks (NCBs). Among these many people I should mention in particular my two predecessors, the Chairmen of the Working Group on Statistics, Klaus Hanau and then Rafael Álvarez; my successor as Chairman of the Statistics Committee and Head of Statistics at the ECB, Steven Keuning; Michel Stubbe and Carin Pronk, the only two Secretaries of the WGS and the Statistics Committee over this long period; Hans van Wijk and his successors as Chairman of the CMFB; and Yves Franchet, Alberto de Michelis and Bart Meganck in Eurostat. Finally, as Professor Lamfalussy's words indicate, statistical work in the EMI and ECB has enjoyed strong support from the top; in particular, Gert Jan Hogeweg, as Head of the Monetary, Economic and Statistics Department in the EMI, and Eugenio Domingo Solans, as the responsible Executive Board member in the ECB, have given indispensable support and encouragement.

Some of the people mentioned above, and several others, have commented on drafts of this document. Any remaining errors and obscurities are my own. I am grateful to Sarah Ann Croasdale and colleagues for assistance in preparing the text for publication, and to Dirk Freytag and Werner Breun for their help with the technical side of the production of this book.

Frankfurt am Main, May 2004

Peter Bull

An institutional note

The Treaties

References in this document are to the text entitled *"Consolidated version of the Treaty establishing the European Community"* published in the Official Journal of the European Communities, C 325, 24 December 2002 (since renamed the Official Journal of the European Union).

The European Economic Community was established by the Rome Treaty of 1957. The European Coal and Steel Community and the European Atomic Energy Community were established by treaties dated 1951 and 1957 respectively.

The Treaty on European Union, signed in Maastricht in February 1992, contained provisions amending the Treaty establishing the European Economic Community (as well as the two other treaties). Further amendments were introduced in the Treaties of Amsterdam (1997) and Nice (2001). For the purposes of this document the most important are the provisions concerning economic and monetary policy set out in Title VI, Articles 102a to 109m of the Maastricht Treaty (Title VII, Articles 98 to 124 in the consolidated version). The Treaty on European Union also contained Protocols concerning the Statute of the European System of Central Banks and of the European Central Bank, the Statute of the European Monetary Institute, the Excessive Deficit Procedure and the convergence criteria referred to in Article 109j (Article 121(1) in the consolidated version).

The Committee of Governors, the European Monetary Institute, the European Central Bank and their committees

The Treaty on European Union provided for a three-stage approach to Economic and Monetary Union. In Stage One, the Committee of Governors of the central banks of the Member States of the European Economic Community was the forum in which preparations for Economic and Monetary Union would be carried forward. It was the Committee of Governors which added the Working Group on Statistics (and some other working groups) to its committee structure in May 1992. Stage Two would begin on 1 January 1994; the European Monetary Institute would be established, the Committee of Governors would be dissolved, and the Governors, with the President of the European Monetary Institute, would form the EMI Council. Stage Three would begin at the latest on 1 January 1999. The governments of the Member States proceeding to Stage Three of Economic and Monetary Union (called in the Treaty Member States without a derogation; in this document they are frequently referred to as participating Member States) would meanwhile appoint the President, Vice-President and other members of the Executive Board of the European Central Bank. The ECB and the ESCB would be established forthwith, and the EMI would go into liquidation. The decision-making bodies of the ECB would be the Executive Board, a Governing Council comprising the members of the Executive Board and the governors of the central banks of the participating Member States, and, as a transitional provision while there are Member States with a derogation, a General Council including also governors of central banks of the non-participating Member States.

From the start of Stage Two, the sub-committees and working groups reporting to the Committee of Governors reported to the EMI Council instead. The Working Group on Statistics already had a sub-structure (Task Forces on Money and Banking Statistics and Capital Flows and Stocks – subsequently Financial Flows and Stocks, reflecting the terminology of the IMF's 5th Balance of Payments Manual – which had been transferred to the Committee of Governors in January 1993). Task Forces were subsequently set up on General Economic Statistics and Government Finance Statistics, on Monetary Union Financial Accounts and on Statistical Information Systems. Shortly after the establishment of the ECB, the Working Group on Statistics was reconstituted as the Statistics Committee, and the task forces were renamed working groups. The term "task force" was applied instead to ad hoc groups, usually smaller than the working groups, set up to accomplish a particular job and wound up when their purpose had been fulfilled.

Until late in Stage Two, the Working Group on Statistics was chaired by a senior staff member of a national central bank (Klaus Hanau of the Deutsche Bundesbank until April 1997, then Rafael Álvarez of the Banco de España); the Secretary was a member of the staff of the Committee of Governors and subsequently of the EMI (Michel Stubbe throughout). In September 1998 the chairmanship passed to the Director (later Director General) responsible for statistics at the ECB (Peter Bull until September 2002, then Steven Keuning), and Carin Pronk (ECB staff) became Secretary. Task forces were initially chaired by Eurostat (Money and Banking Statistics – Ian Kerr) or by a central bank statistician (Capital Flows and Stocks – Rudolf Seiler, Deutsche Bundesbank). In January 1995 the chairmanships passed to the EMI staff member responsible for the relevant area of statistics. At the end of 2003, the Chairmen of the Statistics Committee's Working Groups were:

Balance of Payments and External Reserves	Jean-Marc Israël
General Economic Statistics and Government Finance Statistics	Werner Bier
Money and Banking Statistics	Michel Stubbe
Monetary Union Financial Accounts	Werner Bier
Statistical Information Systems	Gérard Salou

Abbreviations and acronyms

AMICO	Accounting and Monetary Income Committee
APRC	annual percentage rate of charge
BAD	Bank Accounts Directive
BANCO	Banknote Committee
BCD	Banking Coordination Directive
BIS	Bank for International Settlements
b.o.p.	balance of payments
BPM5	Balance of Payments Manual, 5th edition (IMF, 1993)
BSC	Banking Supervision Committee
BSSC	Banking Supervisory Sub-Committee
CebaMail	ESCB facility for electronic exchange of documents and data
CFSTF	Capital Flows and Stocks Task Force
CII	collective investment institution
CMFB	Committee on Monetary, Financial and Balance of Payments statistics
CSDB	Centralised Securities Database
DESIS	ECB facility to provide key data in convenient form
DGS	Directorate General Statistics (the statistics department of the ECB)
EC	European Community
ECB	European Central Bank
ECOFIN	Economic and Finance (Ministers)
ECU	European Currency Unit
EDP	Excessive Deficit Procedure
EER	effective exchange rate
EFC	Economic and Financial Committee
EFTA	European Free Trade Association
EMI	European Monetary Institute
EMU	Economic and Monetary Union
ENSD	ESCB facility for electronic exchange of non-statistical data
ERM II	exchange rate arrangement with EU Member States outside the euro area
ESA	European System of Accounts
ESCB	European System of Central Banks
ESS	European Statistical System
EU	European Union
FAME	database system used by ECB
FEPSC	Foreign Exchange Policy Sub-Committee
FFSTF	Financial Flows and Stocks Task Force
GDP	gross domestic product
GES	general economic statistics
GESMES/CB	format for statistical data exchange used by ESCB (later renamed GESMES/TS) (the acronym stands for "generic statistical message")
GNP	gross national product
HICP	Harmonised Index of Consumer Prices
IAS	International Accounting Standards
i.i.p.	international investment position
IMF	International Monetary Fund
INTRASTAT	statistical system covering cross-border trade in goods within the EU

ISIN	International Securities Identification Number
ISMA	International Securities Market Association
ITC	Information Technology Committee
IT	information technology
LEGCO	Legal Committee
MBSTF	Money and Banking Statistics Task Force
MESD	Monetary, Economic and Statistics Department (in the EMI)
MFI	monetary financial institution
MMF	money market fund
MOC	Market Operations Committee
MPC	Monetary Policy Committee
MPIs	macro-prudential indicators
MPSC	Monetary Policy Sub-Committee
MUFAs	Monetary Union Financial Accounts
MUFATF	Monetary Union Financial Accounts Task Force
MUICP	Monetary Union (harmonised) Index of Consumer Prices
MUMS	Monetary Union Member State(s)
NCB	national central bank
NCI	national competitiveness indicator
NDER	narrowly-defined effective rate
NSI	national statistical institute
OECD	Organisation for Economic Co-operation and Development
OFI	other (non-monetary) financial intermediary
PSSC	Payment and Settlement Systems Committee
SDDS	Special Data Dissemination Standard
SDRs	Special Drawing Rights
SNA	System of National Accounts
SPC	Statistical Programme Committee
SPE	special purpose entity
STC	Statistics Committee
UCITS	undertaking(s) for collective investment in transferable securities
WGAI	Working Group on Accounting Issues
WGBP&ER	Working Group on Balance of Payments and External Reserves
WGGES/GFS	Working Group on General Economic Statistics/Government Finance Statistics
WGLE	Working Group of Legal Experts
WGMBS	Working Group on Money and Banking Statistics
WGMUFAs	Working Group on Monetary Union Financial Accounts
WGSIS	Working Group on Statistical Information Systems
WGS	Working Group on Statistics

Part A

Statistical preparations for Economic and Monetary Union

Chapter 1

Introduction and overview of Part A

Background. The starting point. Why formation of Economic and Monetary Union requires lengthy statistical preparations. The prevailing uncertainties. The main developments in brief outline.

Economic and Monetary Union (EMU) in Europe began to seem a real prospect in the 1980s. In 1989 the Delors Group[3] proposed a three-stage approach to EMU; the European Council decided in June 1989 that the first stage should start in the following year, and subsequently initiated the drafting of the Treaty on European Union. It was clear that Economic and Monetary Union would create a need for statistics sufficiently comparable to permit sensible aggregation across Member States. Moreover it would be necessary in the preparatory stage to monitor economic developments in Member States more closely than hitherto. The Commission (Eurostat) had already begun a statistical programme and set up a Statistical Programme Committee (SPC) consisting of heads of national statistical institutes (NSIs) to help the European Commission to prepare the programme and then to implement it.

In most Member States, money and banking statistics and balance of payments statistics were collected and compiled by the respective national central bank (NCB). In those countries which compiled them, financial accounts were also often the responsibility of the NCB. These arrangements reflected the location of institutional expertise, which in turn derived from the focus of policy interest in NCBs on banking and financial activity and the balance of payments, for which commercial banks were often the source of statistical information. The authors of what became known as the Maastricht Treaty (the Treaty on European Union, signed in February 1992)[4] recognised that NCBs had statistical responsibilities and expertise, and projected them onto the new institutions proposed for the second and third stages of Economic and Monetary Union, the EMI and the ECB, though without prejudging the areas in which they might exercise their statistical responsibilities. Thus the Treaty establishing the European Community, as amended by the Maastricht Treaty, gives the EMI, in preparing for Stage Three, a specific responsibility to

"promote the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics within its field of competence" (Article 117 (3)).

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[3] Committee for the Study of Economic and Monetary Union.

[4] See the institutional note at the front of this book. References to the Treaty throughout this book use the numbering in the consolidated version of the Treaty establishing the European Community (December 2002).

The ECB is also given a responsibility in Stage Three for statistics within its (unspecified) field of competence under Article 5 of the Statute of the ESCB and of the ECB:

"*In order to undertake the tasks of the ESCB, the ECB … shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence*"

Article 5 obliges the ECB to cooperate in statistical matters with Community institutions or bodies (among others) and to allow NCBs to carry out related tasks so far as possible. Furthermore, the ECB and the NCBs have a legal obligation to maintain their independence in Stage Three (Article 108 of the Treaty). While cooperating, therefore, they may not seek or take instructions. Community institutions and bodies and Member States must respect this (ibid.).

Without prejudging the "field of competence", there was a clear need to organise efforts. There was no EU forum in which senior NCB statisticians could meet in the 1980s. The Committee of Central Bank Governors had only three sub-committees, covering monetary policy, foreign exchange policy and banking supervision. The European Commission was aware of both this gap and also that the traditional central bank statistics would need harmonising as much as others. The Commission also saw a need to bring NCB and government statisticians together, perceiving that in some Member States their relationship was distant. Eurostat convened a joint meeting of NCB and government statisticians, shortly to be formalised by a Council Decision establishing a Committee on Monetary, Financial and Balance of Payments statistics (CMFB) (Decision 91/115/EEC, February 1991). The CMFB was intended as an advisory committee to help the Commission to draw up and implement a work programme for monetary, financial and balance of payments statistics as a section of the multi-annual work programme of the Commission (another group, the European Advisory Committee on Statistical Information in the Economic and Social Spheres, was set up at about the same time).

This was not, however, to be what the CMFB actually did. A development programme for statistics as a section in the Commission's work programme did not fit comfortably with the letter and spirit of Articles 108 and 117 of the Treaty and of Article 5 of the Statute. The question of what substance to give to "the field of competence" of the EMI and ECB came to a head with an invitation from the CMFB to the Committee of Governors to comment on a draft Commission work programme 1993-97, which led the chairman of the CMFB to urge the Committee of Governors to put itself in a position to give firm advice to the CMFB on who should do what. The Commission (Eurostat) would otherwise take the initiative, and it might then be difficult to establish the statistical role of the EMI/ECB. The Governors' Alternates accordingly convened a meeting of heads of statistics departments in EU central banks in March 1992; in most cases these were the central bank members of the CMFB. The group was formally established as the Working Group on Statistics (WGS) in May 1992, having proposed to the Governors a field of competence which was reflected in the Committee of Governors' comments on the draft Commission work programme in April 1992.

Substantial preparatory work on statistics for Stage Three in central banks began with the establishment of the WGS. This is not to understate the importance of earlier work with statistical connections in the Committee of Governors structure (especially the work in 1991 on broad money aggregates carried out by the Monetary Policy Sub-Committee (MPSC) of the Committee of Governors and their Economic Unit in Basel), nor statistical work on money and banking, balance of payments and financial accounts begun under Eurostat auspices. This work is acknowledged in the following chapters. The theme of Part A of this document, however, is the preparatory work for Stage Three undertaken from spring 1992 in the WGS and its sub-groups and in the Secretariat of the Committee of Governors, and subsequently in the EMI from 1994 and in the ECB from June 1998. The WGS was reconstituted in October 1998 as the Statistics Committee (STC) with a new mandate but essentially the same role.

Rather than help the Commission (Eurostat) with a section of its multi-annual work programme, the CMFB developed as an advisory and consultative group in areas of statistics where the EMI/ECB and the Commission later agreed to share statistical responsibility (balance of payments and financial accounts, including government finance statistics) and, increasingly, in areas where statistical competence lay with the European Commission, but where the ECB had a close interest as a user (especially prices, costs, government non-financial transactions, and other aspects of national accounts). It played a particularly important role in advising the Commission on the statistical treatment of government transactions in the context of the Excessive Deficit Procedure (EDP), and there are many references in this document to the CMFB. The work of that committee has been chronicled in detail from the start to April 1999 by its first chairman, Mr Hans van Wijk.[5]

Before turning to the substance of the statistical preparations for Stage Three of EMU, it is worth considering why the formation of Economic and Monetary Union by a group of EU Member States should require lengthy statistical preparation. All the Member States surely had national central banks which pursued a national monetary policy requiring similar statistical information; why not add up national data to produce euro area aggregates? Although adding up existing national data might be sufficient in some areas, it could not provide a satisfactory solution for four main reasons. First, although with the partial exception of Luxembourg (then in monetary association with Belgium), all EU Member States[6] had central banks in the early 1990s, by no means all of them pursued a monetary policy of their own. Several had for many years pegged their currencies to the Deutsche Mark, and responded to monetary policy developments in Germany keeping a close eye on their exchange rates, balance of payments and perhaps some measures of domestic credit. They did not in practice have the same policy interests and statistical needs as a central bank pursuing an independent monetary policy, with consequences for the timeliness and frequency of some national data as well as in some cases for its coverage or availability. Second, to the extent that Member States had similar data, there were often so many differences that sensible aggregates could hardly be produced, at least in any degree of detail. Third, some types of data for the euro area[7] are not simply the sum of corresponding national data, even if these are harmonised. Thus national monetary aggregates commonly include (with other components) deposits held by residents with domestic banks. The corresponding aggregates for the euro area include deposits held by residents of any participating Member State with banks located

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5 “Bridging the fault lines - the early years of the CMFB”, H.H. van Wijk, March 2001.

6 There were 12 Member States at the start of the period; Austria, Finland and Sweden joined the Community in 1995. They had however already been informed about statistical work for some time, and enjoyed observer status in EMI committees from the date of signature of their Acts of Accession (June 1994).

7 This convenient term is used throughout this book to mean the territory of the EU Member States which have adopted the single currency under the Treaty, although it did not come into use until later.

anywhere in the area. They exceed the sum of national aggregates by the amount of cross-border business within the euro area. To measure this correctly requires reporting institutions to provide more information about their business. By contrast, balance of payments flows for the euro area are less than the sum of national flows, because cross-border business within the euro area is not a balance of payments flow for the area as a whole. Finally, the concerns of the central bank of a large currency area may differ from those of the monetary authority covering a small area, even if the latter conducts an independent monetary policy, and different concerns imply different statistical needs.

Accordingly the EC Treaty charged the EMI with statistical preparations for Stage Three, and gave the ECB a continuing statistical function in Economic and Monetary Union.

It was clear from the start that statistical preparation for Economic and Monetary Union would take a long time. Agreeing requirements and formulating them in detail would be a lengthy business; then reporting agents and the NCBs themselves would need time for implementation. Since the Treaty referred to EMI and ECB statistical activities within their "fields of competence", it was important to identify these and then to predict the statistical needs of the future ECB in performing its functions under the Treaty. It was necessary to establish how far these needs could be met from existing sources, and to develop a programme of work to fill the gaps and achieve a sufficient degree of harmonisation. This essentially was the approach followed in the preparatory phase.

At that time, and for some years to come, the work was undertaken in ignorance of when Stage Three would start, and which Member States would participate. What monetary policy instruments and procedures the ECB would employ was also unknown. It was unclear how financial market structures would develop, not least in reaction to the formation of Economic and Monetary Union itself. All these uncertainties were relevant to statistical preparations. According to the Treaty, Stage Three could have started in 1997; it was only in December 1995 that the European Council confirmed the latest starting date foreseen in the Treaty, namely 1999. As for participation, all Member States had to make preparations, since by the time the initial composition of the euro area was decided, it would have been far too late to start. The main features of the planned monetary policy instruments and procedures were published by the EMI in January 1997; statistical requirements had been published six months earlier, on the basis of informed assumptions and guesses.

The main priority was to satisfy the monetary policy function. Indeed, this was the task given to the WGS by the Committee of Governors in its mandate ("*[to] contribute to the improvement in the statistical information which is needed for the co-ordination of monetary policies* [in Stage Two] *and to develop the statistical base necessary for the conduct of the single monetary policy* [in Stage Three]"). To establish needs for statistical information, the WGS consulted on many occasions the sub-committees and other working groups of the Committee of Governors (later the EMI Council), the Economic Unit (until end-1993) and the EMI's Monetary, Economic and Statistics Department (MESD) from 1994, as the people best able to foresee the needs of policy-makers and analysts in the ECB. Since however all operational and practical decisions would have to be taken by the ECB once it was set up, stating requirements and developing statistical plans to meet them was an act of faith. The ECB might have chosen to target some measure of money which could not be compiled from the data prepared, or demanded weekly monetary statistics or a quarterly international investment position. Proxy users and statisticians used their best judgement; it was impossible to prepare for every eventuality. Some redundancy had to be accepted in order to provide the ECB with flexibility, but it had to be severely limited to minimise the cost of wasted effort in reporting institutions, central banks and the EMI/ECB itself. In the event, with the partial exception of the reserve base for the Eurosystem's minimum reserves, the provision met the immediate need at the start of Stage Three.

The work was thus undertaken on the basis of likely outcomes, and sought to meet minimum requirements only, to save time and resources and to reduce the risk of redundancy.

An initial catalogue of user needs was ready by December 1992. Inventories of available data, with first proposals for harmonisation, followed in 1993 and 1994. Well-developed proposals concerning statistical requirements for Stage Three were put to the EMI Council in early 1996 and published as a booklet and a detailed implementation package in July 1996 – the latest possible date for an economic and monetary union starting in 1999, since central banks advised that it would take 18-30 months to make all the changes, and reporting agents urgently needed to know what they should do. Chapter 3 describes the approach adopted for this preparatory work; Chapters 5-15 explain how harmonisation proposals were developed for all the areas of statistics considered to be relevant to the functions of the future ECB. The time up to autumn 1998 was devoted to implementation, preparing the legal and IT infrastructure and making other technical preparations. This work is the subject of Chapter 4 and Chapters 16-20. Chapters 21 and 22 concern organisational issues and publication policy. The first new data became available in autumn 1998, just in time for final policy preparations. Some of the less pressing requirements were met in the course of 1999, or even later. Because they were planned and initiated before the start of Stage Three, however, they are covered in Part A.

The experience with the initial statistical endowment in the first five years of Economic and Monetary Union and the steps taken to strengthen it in that time are the subject of Part B of this book.

Chapter 2

The task, and some preliminaries

The ESCB's functions. Statistical responsibilities of the EMI and ECB. Areas of competence, the March 1992 meeting of heads of central bank statistics departments, and the opinion of the Committee of Governors on a draft Community Statistical Programme 1993-97. The Working Group on Statistics established (May 1992).

The task

Article 105 of the Treaty gives to the ESCB[8] as its primary objective the maintenance of price stability. Article 105 lists the basic tasks to be carried out through the ESCB: the first of these is to define and implement the monetary policy of the Community; other basic tasks concern the conduct of foreign exchange operations, the holding and management of official foreign reserves, and promoting the smooth functioning of payment systems. Article 105 also gives the ESCB a role in prudential supervision and financial stability.

The EMI had a definite if not clearly specified statistical responsibility under the Treaty. Under Article 117 (3),

"for the preparation of the third stage, the EMI shall … promote the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its field of competence".

In the third stage, the ECB is given a similar responsibility for harmonisation, and also other statistical responsibilities, under Article 5 of the Statute of the ESCB and of the ECB. Thus:

"Article 5.1 In order to undertake the tasks of the ESCB [as set out in Article 105], *the ECB … shall collect the necessary statistical information …*

Article 5.3 The ECB shall contribute the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence".

In performing these statistical functions, the ECB must cooperate with Community institutions or bodies and with national authorities in EU Member States or third countries and with international organisations (Article 5.1); it must rely in all this on the national central banks as far as possible (Article 5.2).

[8] For the most part the Treaty is written as if all EU Member States participate in Economic and Monetary Union. The ESCB comprises the ECB and the NCBs of all EU Member States. The informal term "Eurosystem" is used in this document, except as here in the context of the Treaty and Statute, to mean the ECB and the NCBs of the participating Member States.

These provisions of the Treaty give rise to several questions which are examined and answered in detail in this document. Very briefly:

- To what statistical needs do the tasks of the ESCB as listed in Article 105 give rise?
- What, from a statistical perspective, are the fields of competence of the EMI and ECB, and how should they be developed?
- What should be harmonised and how far should harmonisation go?
- Given that NCBs should "to the extent possible" perform the statistical tasks outlined in Article 5 of the Statute, how should statistical work be organised in the ESCB or in the Eurosystem?
- What form should the required cooperation between the ECB and statistical agencies outside the ESCB or the Eurosystem take, and how should it be conducted?

These broad issues, and the host of practical questions to which they gave rise, occupied EMI statisticians and, through the WGS and its task forces, statisticians in the NCBs, throughout the period of preparation for Economic and Monetary Union.

Some preliminaries

When the preparations for Economic and Monetary Union began, all EU Member States had central banks which, in varying degrees, performed functions similar to those set out in Article 105 of the Treaty and carried out statistical work to support them (Luxembourg, then in monetary association with Belgium, was a partial exception). Moreover, the European Commission (mainly in the form of Eurostat) had already compiled many economic and financial statistics covering the European Union, including, from 1984, aggregated balance sheets of banking institutions, for the analytical and policy purposes of the Commission and the benefit of the interested public. Statistical standards – if not legally enforceable – had been set at the European level in the European System of Accounts (the ESA 1979 was currently in force, later to be replaced by the ESA 95) and at the international level by, notably, successive editions of the IMF's Balance of Payments Manual and its guide to money and banking statistics (1984), by the Organisation for Economic Co-operation and Development (OECD), and in the global System of National Accounts (SNA). Revised versions of the Balance of Payments Manual and the SNA were in preparation and were later to be published as the 5^{th} edition of the Manual (BPM5) and the SNA 93.

The prospect of Economic and Monetary Union stimulated further activity from about 1990 onwards. An EU Committee on Monetary, Financial and Balance of Payments statistics (CMFB) was set up by a Decision of the EU Council dated February 1991. Made up of senior statisticians from NCBs and national statistical institutes and the Commission, with observers, one of whom represented the Committee of Governors, its stated purpose was to assist the Commission to prepare and implement a medium-term programme of work in the areas mentioned in its title. The Committee of Governors itself undertook substantial work on monetary aggregates; the Economic Unit's report *"Harmonising broad monetary aggregates"* (May 1991) introduced the concept of M3H and encouraged all EU NCBs, through adjustments to their national monetary statistics, to adopt it.

This development was further stimulated by, and also contributed to, econometric work on demand for money in the European Union. The Committee of Governors' Economic Unit monitored progress with monetary harmonisation, and also undertook to produce a set of indicators of aggregate economic performance for the Community.

The Committee of Governors Secretariat and the Economic Unit had however very limited capacity to do statistical work. There was a long-standing Eurostat Working Party on Banking and Monetary Statistics, lately dormant but now revived as the Money and Banking Statistics Working Party. It had a task force, set up in 1991 and also serviced by Eurostat, which was undertaking detailed studies of national data and sources. All work on balance of payments statistics and financial accounts was under Eurostat auspices. Serious preparatory work was getting under way, not least in a planned Community Statistical Programme 1993-97. While the Committee of Governors had no group of central bank statisticians reporting to it, others were making the running. Yet the Treaty expected statistical preparation to be a prime function of the EMI, and envisaged an important statistical role for the ECB.

Such considerations led the chairman of the CMFB, on his own initiative, to write in February 1992 to the Secretary General of the Committee of Governors urging the Governors to provide guidance on three questions:

1. Which statistics are within the competence of the Committee of Governors?
2. By what internal organisational measures would the Committee of Governors put itself in a position to guide the preparatory work?
3. By what external procedures would this guidance be given?

He proposed a statistical group, serviced by the Committee of Governors Secretariat, with close contact with the Monetary Policy Sub-Committee (MPSC).

A meeting of heads of statistics departments of central banks was duly convened in March 1992.

To help advise the Committee of Governors, the meeting addressed three questions:

1. The harmonisation of which statistics should be (in the words of the Treaty) promoted by the EMI and contributed to by the ECB?
2. Which data should be collected within the ESCB?
3. In the light of the answers to these questions, what would be the most appropriate organisation at Community level, with what implications?

A review of the current use of statistics in central banks and their current statistical responsibility and expertise led the meeting to conclude that all money and banking statistics, balance of payments statistics on a settlements basis, and financial accounts should fall within the area of competence of the EMI/ECB. However, these three areas of statistics were not viewed in the same way: the meeting distinguished between money and banking statistics, seen as constituting the essential core of central bank statistics, and outer circles of balance of payments statistics and then financial accounts where central bank involvement was important but other statistical agencies might also have a role. The meeting then further concluded that the EMI/ECB should have an exclusive role in harmonising money and banking statistics, and should assume responsibility at Community level for consistent balance of payments statistics on a settlements basis, while cooperating with Eurostat in view of the use of balance of payments statistics in national accounts, and also with the IMF in the interests of complying with international standards. On financial accounts, an integral part of national accounts, the conclusion was more tentative; if the ESCB were to be responsible, great care would have to be taken over cooperation with Eurostat. The meeting understood that responsibility for harmonisation need not imply a duty to collect the data, and indeed favoured an institutional approach under which central banks would take responsibility for all data collection (irrespective of its purpose) from financial institutions, in the interests of speed, minimising the reporting burden, making best use of the reporting infrastructure, and keeping confidential individual institution data within the ESCB where, implicitly, the data might be exchanged to promote consistency in its various uses.[9]

The meeting concluded that the Committee of Governors should decide which statistics should be harmonised under the leadership of the EMI/ECB, and which should be collected by the ESCB, and should state this decision in an opinion on the 1993-97 Community Statistical Programme which the Governors had been invited to provide in the following month (April 1992). The meeting recommended that a Working Group on Statistics should be set up to report to the Committee of Governors; its mandate should include statistical preparations for Stage Two and Stage Three within the field of competence of the ESCB. Eurostat would be invited for discussion of matters particularly relevant to the Commission; the Chairman of the CMFB of the European Free Trade Association (EFTA) (who was later, from April 1993, to be a vice-chairman of the CMFB and, following the 1995 enlargement of the European Union, its Chairman) should also be invited as an observer to cover the interests of possible future Member States. Finally, the meeting noted that the future of the technical working parties sponsored by Eurostat, but covering areas where central bank competence was being staked out, would need to be addressed, as would the EMI's requirements for statistical staff, data bank services, and so on.

Only the Bank of England expressed reservations about the division of competencies. The Bank of England representative said that in the United Kingdom, balance of payment statistics and financial accounts were viewed as part of the national accounts, and were the responsibility of the national statistical institute with limited involvement of the central bank. He explained that balance of payments statistics were collected through surveys, not from bank settlements,[10] a system which he could not envisage the United Kingdom adopting, and that much of the data from financial institutions was collected by the national statistical institute, not the central bank; he also considered that users of statistics should have the chance to comment on the area of statistical competence of the EMI and ECB. After much debate, the question of balance of payments collection systems was shelved in the preparatory period; statisticians focused instead on achieving a satisfactory output in terms of frequency, timeliness and sufficiently harmonised data, in the belief that different collection systems could produce acceptable results. For various reasons, however, the question would not go away (see Chapter 39 in Part B). The idea that central bank competence should cover balance of payments data on a settlements basis, and implicitly not balance of payments data collected by other means, soon gave way to responsibility for high frequency (monthly) data, and for particular parts of the account.

The question of areas of competence was laid to rest with reports to the EMI Council in July 1995, and an informal memorandum of understanding between the EMI Statistics Division and Eurostat. The subject is considered at length in Chapter 21, but

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[9] NCBs were still sensitive to the provision in Council Regulation (EEC, Euratom) No 1588/90 on the transmission to Eurostat of data subject to statistical confidentiality, which appeared to require NCBs to send confidential data to the Commission for Community statistical purposes. Sending such data to the future ECB no doubt seemed preferable.

[10] In a settlements system, balance of payments statistics are compiled from information on cross-border receipts and payments, usually reported to the NCB by commercial banks on behalf of their customers. In a survey system, balance of payments statistics are compiled from surveys of transactions submitted by the financial and non-financial enterprises most active in cross-border business.

arises here because an urgent need to define areas of competence lay behind the March 1992 meeting of heads of statistics departments of the central banks, soon to be followed by the mandate for the WGS.

The Community Statistical Programme 1993-97 was a Commission draft, ultimately intended for the Council and European Parliament, which had been sent to the CMFB for an opinion; the CMFB Chairman had sent it on his own initiative to the Committee of Governors seeking their view. In line with the advice of the heads of statistics departments, the Committee of Governors commented as follows in their opinion on the Statistical Programme 1993-97: "*When defining the responsibilities of the EMI and the ECB a distinction needs to be drawn between the conceptual work and the collection of data. With respect to the former aspect, the Committee of Governors considers that, given the tasks mentioned above, the two new Community bodies* [i.e. the EMI and the ECB] *should be responsible for all money and banking statistics and, to the extent necessary, balance of payments statistics and financial accounts statistics, since these statistics form the basis for the conduct of monetary policy and foreign exchange operations. This field of competence essentially corresponds to the information presently needed by most central banks and which will also be required by the future ECB. Since balance of payments statistics are based on standardised concepts agreed upon at international level and provide data input for the national accounts statistics, and since the financial accounts statistics are an integral part of the national accounts statistics, close co-ordination will be needed with other international bodies also responsible for conceptual work relating to these statistics.*

The collection of data will remain for the time being the task of the national bodies, which are the central banks in most Member States."

At a special meeting in March 1992, the CMFB was informed of the discussion among heads of central bank statistics departments and held a preliminary, and difficult, review of the fields of competence issue. The CMFB met again in May 1992 to consider the text of the statistical programme in the light of the Governors' comments. After another difficult discussion, the CMFB proposed a new text which distinguished between monetary and financial data collected from financial institutions (which would be the job of the ESCB), and economic data collected from financial institutions (on employment, vacancies, capital spending, etc.) which could be collected by central banks or NSIs depending on national circumstances. Thus the CMFB did not consider that central banks should necessarily be responsible for <u>all</u> data from financial institutions, regardless of their nature. The attempt to capture the idea of shared responsibility for balance of payments statistics and financial accounts also caused difficulty; the issue was in effect remitted to a Groupe de Réflexion first suggested at the March meeting and subsequently set up to consider the role of the CMFB in the approach to Economic and Monetary Union, and to report to the CMFB in January 1993. The discussions in the CMFB in March and May 1992 and the deliberations of the Groupe de Réflexion are covered in detail in Hans van Wijk's history of the CMFB.

Meanwhile, with the benefit of the conclusions of heads of statistics departments, the Committee of Governors recognised that the opinion on the Statistical Programme 1993-97 implied a commitment to action in statistical matters, and accordingly set up a Working Group on Statistics (WGS) with a mandate (12 May 1992) to

"*review the money and banking, balance of payments and financial accounts statistics and assess the availability of these statistics against requirements identified by the Monetary Policy Sub-Committee and the Foreign Exchange Policy Sub-Committee;*

assess the structures, rules and practices governing the collection, compilation and distribution of these statistics;

identify the areas where there is a need for additional statistics and for harmonising rules and practices in view of the requirements for the co-ordination of monetary policies and the conduct of the single monetary policy;

make the necessary preparations for the transmission of statistics in the framework of the EMI;

initiate a study on the future collection of data by the ECB, assisted by the national central banks and, to the extent necessary and appropriate, by other national bodies;

study the future provision of statistics to and from EUROSTAT and international organisations".

In the interests of coherence of the statistical work at the Community and international level, the Working Group would also

"co-ordinate regularly views in preparation of the meetings of the Committee on Monetary, Financial and Balance of Payments Statistics established by the Council Decision of 25th February 1991, in particular within the framework of the Statistical Programme of the European Communities, 1993-1997;

maintain close contacts at technical level with central banks of EFTA countries and international organisations;

prepare opinions of the Committee of Governors when it is consulted on statistical issues".

The approach

Chapter 3

The preparatory phase

The approach to preparatory work – establish needs, assess available data, identify gaps, plan how to fill them. Consulting potential user groups. Reports to the Committee of Governors/EMI Council – a means to seek endorsement for what had been done, and to obtain support for further action. The July 1996 implementation package presenting a detailed statement of requirements.

The WGS began immediately with preparatory work, following a procedure used many times subsequently until the adoption of a more formal merits and costs procedure in 2000:

1. Ask potential users of the statistics to state their requirements.
2. Make an inventory of data available in Member States, paying attention to differences in definition and coverage in national statistics.
3. Identify the gaps between stated needs and current provision.
4. Prepare plans to fill the gaps and to harmonise definitions and coverage where necessary.
5. Invite users to reconsider or modify requirements where these seem likely to be difficult or especially costly to meet.

From the start, the WGS prepared rolling work programmes, to help ensure that the preparatory work proceeded in an orderly and timely fashion. In 1994, after the establishment of the EMI, the main items were incorporated in a Master Plan, developed and maintained by the EMI's General Secretariat to facilitate coordination across business areas and avoid gaps or duplication of effort. The Master Plan also set in broad terms the agenda for the EMI Council, the successor to the Committee of Governors in Stage Two of Economic and Monetary Union, which started in January 1994. The initial focus of the Master Plan was a requirement in Article 117(3) of the Treaty: "*At the latest by 31 December 1996, the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage*".

Thus the first task of the WGS at the inaugural meeting (July 1992) was to prepare a questionnaire on statistical needs in Stages Two and Three in order to establish user requirements. The questionnaire, addressed to the Monetary and Foreign Exchange Policy Sub-Committees (MPSC and FEPSC), the Banking Supervisory Sub-Committee (BSSC), the Economic Unit and the Commission (Eurostat), covered all areas of statistics likely to fall within the field of competence of the EMI/ECB. Users were invited to state their needs for frequency, timeliness and the nature of the aggregation (euro area-wide gross, euro area-wide consolidated, EU-wide, etc.) for a large number of data items and breakdowns (by sector, by maturity, by both sector and maturity, etc.). They were asked to state priorities and say how soon the data should be available (as soon as possible, for the start of Stage Two, during Stage Two, etc.). All this was done for statistics on banks' balance sheets, central banks' balance sheets, interest rates, securities issues, investment companies, balance of payments, financial accounts and the use of the European Currency Unit (ECU).

Most central banks responded through the sub-committees, while the Economic Unit and the Commission replied direct to the WGS. The result was a mass of information, some of it conflicting. Some respondents did not reply using the questionnaire, but wrote letters or memoranda. Some took the opportunity to make general points about keeping the reporting burden down, avoiding overloading the EMI/ECB with statistical work, minimising duplication and establishing good coordination with Eurostat. Some (naturally) observed that uncertainty about monetary policy instruments and procedures made it difficult to state preferences and choices at that stage. The Commission was unhappy about the section on financial accounts, which seemed in its view to reopen issues already resolved in preparatory work in the ESA 95. The Secretariat sought to summarise the mass of information and clear up any obscurities.

The requirements will be discussed in detail elsewhere in this document; the concern here is with the procedure. Worthy of note, though, is the remark of the FEPSC, that, given the transitional nature of ECU statistics, the EMI could focus on data already available and avoid adding to reporting and compilation burdens in this area. This remark saved a considerable amount of work.

The WGS, in its work programme that was also agreed at the inaugural meeting in July 1992, aimed at submitting a catalogue of user requirements to the Committee of Governors in December 1992. Users had a month to reply to the questionnaire (October); the WGS had the remaining time to process the results and prepare a report to the Governors. The Committee of Governors endorsed the report in January 1993. They noted that the report did not imply any immediate commitment to collect new data or change collection systems; and that the WGS should take account of cost considerations (presumably for both reporting agents and compilers) in its future work.

At the same time the WGS began to draw up inventories of available data and, in the words of the work programme, *"the national rules and practices governing the collection, compilation and distribution of money and banking, balance of payments, financial accounts and ECU statistics"*. Money and banking statistics had a head start here, because the Money and Banking Statistics Task Force (MBSTF), soon to be brought under the wing of the WGS/Committee of Governors, was well advanced with a manual on national sources and methods, and had also investigated in some depth the contents of national banking sector balance sheets viewed as components of broad money (M3H) in what they called a "building blocks" exercise. (As recommended by the CMFB's Groupe de Réflexion, and with the agreement of the parent committee, the WGS took over the MBSTF from February 1993. The manual describing national statistical systems was already finalised, though not published for some months because of a translation bottleneck. In a similar way, but after the need for a fuller debate to overcome reservations about splitting the balance of payments work, the WGS also took over the Capital Flows and Stocks Task Force (CFSTF); other task forces, in the balance of payments area and elsewhere, remained the Commission's responsibility.) Nevertheless, compiling inventories of national data matched against the stated user requirements in all relevant dimensions (coverage, frequency, timeliness, etc.) took longer than expected, with the consequence that the report intended for the Committee of Governors in July 1993 was postponed to September later that year. It was then presented as a two-part report with an overview of the results and the most important gaps, and a set of detailed notes and tables covering each of the four broad areas of statistics for which the Committee of Governors/WGS had assumed responsibility. A very brief summary of the process and results is contained in the following, shortened and lightly edited, extract from the beginning of the report:

"[This report presents a] systematic comparison …between the users' requirements identified on a provisional basis for Stage Two and Three of EMU and currently available or planned country data… This comparison focuses on the breakdowns, the frequency, the timeliness and the coverage of …statistics.

In general, with regard to both the breakdowns and the frequency there are relatively few gaps in the data classified by the users as "essential" and [in most] of those considered "very important" though some of the gaps are significant. For the remaining data classified as "very important" and for the data considered "important", the gaps tend to be larger, with considerable variation among the Member States…

An improvement in timeliness is required for many countries. In some instances, there is scope for central banks to accelerate reporting and compilation of data within their statistical systems …In other instances, recourse may have to be made to samples or estimates… [provided the results] comply with accuracy standards …to be defined. Nevertheless, if timeliness requirements are to be met in full it will be necessary to allocate additional resources to this task.

A particularly important issue relates to geographical breakdowns for Stage Three. The capability to treat the Member States participating in the Monetary Union as a unified block is an essential requirement. The collection and compilation systems will need to be flexible enough to account for changes in the membership of Monetary Union, of the Community and of both simultaneously. In balance of payments statistics there are considerable cross-country discrepancies in the availability of geographical splits, frequency and timeliness, and also important conceptual problems."

The WGS made two specific proposals which were endorsed by the Committee of Governors: to use any slack in processing and compilation timetables in order to approach timeliness requirements more closely; and to encourage the planned provision in reporting systems of a split of business with other euro area countries (Monetary Union Member States, or "MUMS") and with non-residents of the euro area ("non-MUMS"). While this breakdown would not be known until the composition of the euro area was decided, it was clear that it would be essential for compiling properly articulated aggregates for the euro area and should be planned for even if nothing could be implemented.

Comparing the initial statements of requirements with current availability of national data revealed that some stated needs were nowhere, or almost nowhere, satisfied. Leaving aside such cases which had arisen from the new circumstances of Economic and Monetary Union (notably the breakdown of external business into that with residents of other euro area countries, and that with non-residents of the euro area), a complete or near absence of existing data invited the question of how important the information was if Member States currently did not feel the lack of it. Encouraged also by the Committee of Governors' concern about the cost of new statistical requirements, the Chairman of the WGS in August 1994 questioned "problematic" requirements with the users concerned. These requirements concerned some detailed breakdowns in banking balance sheets, and a requirement for monthly stocks data on external assets and liabilities, i.e. a monthly international investment position (i.i.p.). Some requirements (including the monthly i.i.p.) were subsequently withdrawn, downgraded or modified. It appeared that the purpose of some of the "problematic" requirements was essentially to meet interim or transitional needs when the Economic and Monetary Union was set up or subsequently enlarged; in the event, some estimation was accepted for this purpose on cost grounds, as described in Chapter 17.

Other consultations in this early period of preparation (1993-94) concerned particular conceptual or practical issues on which the WGS sought guidance from users. All these issues are expounded later; they are mentioned here as an important part of the preparatory process. Two consultations in summer 1993 concerned the definition of a banking institution (or monetary financial institution – MFI) and the question of maturity breakdowns of certain items in the MFI balance sheet. In spring 1994 user groups were consulted about long-term interest rates as a convergence criterion and about conceptual issues relating to harmonised consumer prices. In summer 1994 there were further consultations about the need for and content of a monthly balance of payments for the euro area, and users' requirements for financial accounts (in the context of preparing the ESA 95).

The summer 1993 consultations concerned the two major questions in the area of banking statistics, on which the Money and Banking Statistics Task Force had done some preliminary work, namely which institutions, making up the money-creating sector, should contribute to the ECB's future banking statistics; and precisely what balance sheet information they should report. The outcome of these consultations was reflected in WGS reports to the Committee of Governors in December 1993 (*"First proposals relating to statistics in Stages Two and Three and development of work"*).

In neither case were all issues resolved by the consultation. Applying the MFI definition, and identifying money market funds (MMFs) in particular, caused difficulties until late in Stage Two, and the final selection of maturity bands was made only shortly before the release of the implementation package, the comprehensive and detailed statement of statistical requirements for Economic and Monetary Union, in July 1996.

The consultations in spring 1994 were different, in that they concerned areas of statistics outside the central banking field of competence; indeed, both long-term government bond yields and the Harmonised Index of Consumer Prices (HICP) are convergence criteria, that is data to be used in assessing whether Member States fulfil the conditions for adoption of the single currency, for which the Commission is responsible under the Treaty (Article 5 of the Protocol on the convergence criteria – *"The statistical data to be used for the application of this Protocol shall be provided by the Commission"*). In view of the traditional expertise of central banks in the area of government bonds and yield calculations, however, Eurostat had requested help from the EMI in developing these convergence statistics, and the WGS in turn consulted the policy sub-committees and the EMI's economists. Their replies, largely endorsing the WGS's initial proposals, helped to establish the main features of long-term government bond yields as a convergence indicator (central government issues, with a residual maturity as close as possible to ten years, gross of tax, using observed bond yields rather than a yield curve approach, despite its theoretical attraction). A problem was noticed at this early stage: Luxembourg, because of its low inflation rate, might easily be one of the reference countries mentioned in the Treaty, yet it had no government borrowing in the ten-year category.

The WGS had already raised some issues from a central bank perspective on harmonisation of consumer price statistics, in a module forming part of a report to the Committee of Governors in December 1993. The purpose of the spring 1994 HICP consultation was to guide Eurostat and its Working Party on the Harmonisation of Consumer Price Indices in choosing the main features of an HICP, to be set out in the Council framework Regulation subsequently adopted in October 1995 and put into effect by Commission or further Council Regulations. The EMI's interest was as a prospective main user of the HICP, both in connection with convergence reports and regular economic monitoring, and in anticipating the needs of the ECB, in view of the ESCB's responsibility for price stability in Stage Three. The consultation revealed a range of views on the use of imputed prices, on how to deal with owner-occupier housing costs, and on how frequently weights should be updated. The summer 1994 consultation about financial accounts was similar in the sense that it was a check on central bank needs ahead of finalisation of the ESA 95, which would require Member States to compile annual financial accounts on a national basis. (How the ECB's future needs for quarterly financial accounts on a euro area basis relate to this framework is recounted in Chapter 14.) It turned out that some of the extra requirements stated by EMI economists in the consultation could in practice be more easily met from the ECB's money and banking statistics than by amending the draft ESA 95 text.

To establish the need for a monthly balance of payments of the euro area and its content was urgent since the WGS wished to report on the matter, together with a range of harmonisation issues, to the EMI Council in November 1994 (the report had originally been planned for July). The policy sub-committees and the EMI's MESD expressed strong support for monthly statistics (with only the United Kingdom and Ireland dissenting, though Dutch and Danish members questioned the need for monthly current account data). The EMI in particular provided an extended explanation of how the monthly data would be used.

Nearly all detailed comments on content sought more information rather than less. Users clearly understood the problem of compiling back data for periods before the formation of Economic and Monetary Union, and realised that it would recur with each subsequent expansion. These comments were reflected in the WGS's report to the EMI Council on *"Proposals relating to money and banking statistics and balance of payments statistics for Stage Three and to the further development of the preparatory work"* (November 1994). As well as much new material, it should be noted that the November 1994 report contained an amendment to the MFI definition proposed in December 1993, to accommodate money market funds. More substantially, it contained the architecture and much of the content of a monthly MFI balance sheet, explaining how a consolidated balance sheet covering the euro area as a whole would be compiled from the individual balance sheets reported to central banks (the "layered approach"), and how monetary aggregates and counterparts – in terms of amounts outstanding and, as a final step, as flows – would be derived from the consolidated balance sheet.

Three reports submitted by the WGS to the EMI Council in 1995 concerned organisational matters, not preparation of statistics, and are discussed in Chapter 21. Of the total of six reports presented in early 1996, two, concerning the phasing-in of statistical requirements (an implementation matter) and a facility for electronic exchange of data (part of the IT infrastructure), are also discussed later. The other four reports, for the January and April 1996 EMI Council meetings, carried the development of statistics for Stage Three much further.

The most urgent tasks had been to define a money-creating sector, design a reporting scheme for the institutions in it, and establish the content of a monthly balance of payments of the euro area. It was also urgent to develop statistics on government bond yields for convergence purposes, but that had no implication for statistical reporting. One report submitted to the EMI Council in January 1996 documented the progress with identifying institutions to be included in the monetary sector (central banks had by then compiled lists of institutions to be proposed as MFIs), together with remaining problems. As the WGS had realised in early 1994, national lists were not homogeneous, since national applications of the definition of credit institution in the Banking Coordination Directives (BCDs) varied and some categories of financial institution – limited function institutions, exempt credit institutions, collective investment institutions (CIIs), and offshore banks – posed particular problems. The report provided greater clarity on the concept of "substitutability for deposits", and suggested criteria to identify money market funds which were to be included in the sector.

Two other WGS reports to the EMI Council in January 1996 carried forward the work on what MFIs should report. *"Common maturity bands at issue for MFI balance sheet statistics"* proposed a limited number of maturity bands for each of certain assets and liabilities. The *"Reporting scheme for the purposes of compiling monetary statistics following the layered approach"* filled in the outline presented in the November 1994 report with a complete specification of instruments and counterparties (sectoral analysis), with maturity and currency breakdowns, distinguishing between data to be reported monthly and quarterly. With minor changes, this reporting scheme lasted until Regulation ECB/2001/13 came into effect in January 2003.

The bulkiest of the January 1996 reports (*"Further proposals relating to money and banking statistics and balance of payments statistics for Stage Three"*) covered a miscellany of items. On the balance of payments side were conceptual harmonisation reports on direct investment, portfolio investment and "other" investment – the three main items in the financial account. All EU Member States planned to implement the new IMF Balance of Payments Manual (5th edition, 1993); it was important to coordinate implementation, in the interests of coherent euro area aggregates, and the Manual in any case left some matters open to discretion which needed to be settled for the same reason. There were also practical issues, not contentious in principle, arising from the need for monthly statistics to a short timetable.

In money and banking statistics, as noted elsewhere, the highest priority had been given to defining the money-creating sector, statistics on which would contribute to the monetary aggregates and counterparts, and then to deciding precisely what information these institutions should report. Work to construct a prototype broad money aggregate for the future euro area, using the building blocks exercise and available information on cross-border holdings, remained experimental. Although users had already in December 1992 stated needs for statistics on interest rates, securities issues and collective investment institutions (other than money market funds), the WGS had, in view of the acute shortage of resources for making statistical changes for the start of Stage Three, decided for the present not to develop new reporting requirements in these areas. Users accepted this. So far as interest rates were concerned, capital market yields and money market interest rates could be taken from screens. "Retail" bank interest rates, though important, seemed difficult to develop in a harmonised way in view of the wide range of financial products and probable continued fragmentation of retail banking markets. The approach proposed to the EMI Council was to collect existing national data on rates on a few broadly comparable financial instruments. Existing data on securities issues seemed broadly satisfactory. For both interest rates and securities issues, the reports to the Council provided a comprehensive stocktaking of existing national data, and proposals for using the existing data to compile euro area aggregates, with the intention of advancing to a long-term approach in due course.

The survey of collective investment institutions originated in the need to apply the MFI definition and to know more about financial institutions which – especially in view of the inclusion of money market funds, a sub-category of CIIs, in the MFI definition – might be borderline cases for inclusion in the MFI sector. The survey was a factual report containing no proposals.

As well as data items on the balance sheet, practices concerning valuation, netting (of claims on and liabilities to the same customer or related customers), and the treatment of accrued interest, provisions, transit and suspense items, etc. are also important to the final aggregated banking and monetary data. The January 1996 package accordingly included two reports to the EMI Council concerning accounting rules underlying, respectively, banks' and central banks' balance sheets. Banking statistics are commonly compiled from data serving both economic and supervisory purposes, but statistical standards (SNA 93, ESA 95) and accounting standards (notably the Bank Accounts Directive (BAD) (86/635/EEC) on the annual accounts and the consolidated accounts of banks and other financial institutions), where explicit on these matters, are often inconsistent, and national practices may be different again. The January 1996 reports provided a survey of rules and practices concerning a large number of balance sheet items. The conclusions, supported by the EMI Council, were that the accounting principles for the ESCB being developed by the Working Group on Accounting Issues (WGAI), with the involvement of statisticians to ensure that the outcome would be acceptable for statistical purposes, offered an opportunity for convergence; and, for banking statistics, that the EMI should compile a manual on procedures, using other information sources to supplement reported data where necessary, to achieve sufficient consistency for coherent euro area-wide aggregates to be compiled.

All this work was brought together in a booklet entitled *"The statistical requirements for Monetary Union"* and a detailed report, the implementation package itself. The approval and publication of the implementation package material in July 1996 was a landmark in the statistical preparations for Economic and Monetary Union. It is worth discussing this material at some length.

The detailed reporting requirements set out in the layered approach implied extensive changes to existing bank reporting systems, though the necessary changes varied from country to country. Similarly the requirements for balance of payments statistics for the euro area would necessitate much preparation, although in this case adoption of the IMF's 5th Balance of Payments Manual (to which all Member States were committed) would do much of the job. In both these areas of statistics, new breakdowns of transactions and positions with non-residents into those with residents of other euro area countries and those with non-residents of the euro area would be needed. Nothing like this had been necessary before. Central banks had established that it would take reporting agents 18-30 months to implement the proposed statistical changes, with two years as a "workable standard delay"; a previous stocktaking exercise conducted by the EMI with the help of the NCBs in 1995 had first suggested a wider range and a longer maximum time, namely 12-40 months. Mid-1996 was therefore the latest date at which the requirements could be presented to reporting agents in sufficient time for the statistics to be ready for the start of Economic and Monetary Union. The implementation package comprised the booklet outlining the proposed statistical requirements, intended for wide distribution; and a more substantial document setting out the changes in detail, for use as a working document in discussion with reporting agents, banking associations, national statistical institutes and others involved in making the statistical changes.

The main document (*"Statistical requirements for Stage Three of Monetary Union: implementation package"*) comprised seven chapters. The first provided a summary and some background. The second, on money and banking statistics, defined the institutions which were to contribute to the banking statistics (the question of what is a bank, and the MFI definition), and set out in detail what they would have to report (the monthly and quarterly balance sheets, following the layered approach). The third chapter, on balance of payments statistics, set out the separate monthly and quarterly requirements, again in full, and also contained a short section on the (annual) international investment position, explaining that the requirements had not yet been fully specified but that it would be based on the BPM5 and consistent with the balance of payments categories set out previously. These second and third chapters had sections on timeliness, a vital quality in statistics intended for monetary policy purposes.

The new reporting requirements were set out in these two chapters. The fourth chapter, on financial and related statistics other than money and balance of payments, explained that the ECB would need data in a number of other areas, but did not require reporting agents to do anything about providing such data for the present. These areas were financial intermediaries other than MFIs; interest rates; capital issues, commercial paper and similar instruments; government finance; and financial accounts. For the first three items in this list, the EMI, as explained earlier, intended to adopt a short-term approach using existing data. For government finance statistics, improvements were already in train for convergence purposes and the Excessive Deficit Procedure (in the event, it proved difficult for the EMI and ECB to meet requirements in this area; however, there was nothing that the implementation package could have done about it). Financial accounts are derived statistics: the document explained their envisaged use, as a complement to monetary analysis and policy research, and the intended sources, namely euro area money and banking, balance of payments, capital issues and other financial statistics, and the national financial accounts soon to be provided under the ESA 95.

Money and banking, balance of payments, and financial accounts statistics are areas within the central bank field of competence (areas of prime responsibility, or responsibility shared with Eurostat). The fifth chapter (statistics of prices and costs, and background economic statistics) concerned statistics outside the central bank field of competence, but nevertheless data in which the ECB was expected to take a close interest in carrying out the monetary policy task in particular. The development of harmonised consumer prices was already well advanced by Eurostat for convergence purposes; the implementation package went so far as to say that the ECB would use a euro area aggregate of the HICP as a main measure of price developments. The report expected many of the other economic data covered in this chapter to be harmonised, or to become available for the first time when the ESA 95 took effect, followed by a further Council Regulation covering short-term statistics (eventually adopted in May 1998 as No 1165/98). In practice – and with the important exception of the HICP – the EMI and ECB found it difficult to satisfy user needs in this area with data to a sufficient standard of coverage, consistency and, especially, timeliness.

The sixth chapter of the implementation package set out a timetable for the new statistics. A key point here was that some data on the new basis covering the euro area would be needed before the start of Economic and Monetary Union, since it was to be expected that the ECB would engage in intensive policy planning in the interim period, the six months or so between its establishment and the start of Stage Three. It was also certain that some back data would be needed, on the same basis or the closest approximation to it, for at least a year back. The implementation package recognised a serious problem here. Not only was the two year period to summer 1998 barely long enough to make the necessary statistical changes in the most favourable circumstances, but the composition of the euro area, an essential piece of information for properly articulated monetary and balance of payments statistics, would probably not be known for certain until a few weeks before the first data were required. A further timing problem arose later, when it became clear that Germany would want to maintain its present money and banking statistics until the very end of Stage Two, for national monetary policy purposes. To require reporting agents to prepare for any possible composition of the monetary union would have imposed a heavy statistical burden which could hardly be justified by a temporary need. The implementation package therefore recognised that in the interim period, and for back data, the requirements would have to be applied with some flexibility, and good estimates might have to be accepted.

The implementation package concluded with a chapter on monitoring progress and resolving difficulties; arrangements for the implementation period are discussed later. Detailed reporting requirements including schematic tables were elaborated in annexes.

Some further points can be made regarding the July 1996 documents:

1. The composition of the euro area would not be known for certain until spring 1998, as mentioned above; however, by then it would be far too late to start statistical preparations. In his foreword to the booklet, the President of the EMI therefore urged all Member States to undertake the preparatory work.
2. The Bank of England maintained its objection to monthly balance of payments statistics. The booklet states that *"the UK will review its situation in 1998 and meanwhile endeavour to make best estimates from its present reporting system."*
3. The requirements set out in the implementation package were intended to be stable: changes once reporting agents had started to implement the requirements would clearly make for serious presentational and practical difficulties. This consideration raised a problem for minimum reserves. In December 1995 the EMI had decided that no specific technical preparations to provide statistics for minimum reserves would be undertaken; money and banking statistics would be used should the ECB Governing Council decide to use positive reserve requirements. However, it was quite unclear in mid-1996 whether reserve requirements would be used, what form they would take (in particular, how the reserve base would be defined), and which institutions would have to hold reserves. The statistical framework in the implementation package might or might not be suitable. After close consultations with the MPSC, the implementation package contained some contingency provisions for a reserve requirement, but explained that, exceptionally, late changes might nevertheless be necessary to accommodate a reserve requirement.

Although some loose ends remained, the release of the implementation package in important respects marked the end of the preparation phase. Subject to successful implementation, the statistical information that would be available at the start of Stage Three, and in practice for some time thereafter, was largely determined then.

Chapter 4

The implementation phase

The "phased approach" to translating stated requirements into usable data. Monitoring implementation. Progress and problems. Pressure for results in time for finalising plans for the monetary policy strategy in autumn 1998. The first euro area statistics published.

Chapter 3 described how statistical requirements for Stage Three were identified and the existing availability of data was assessed, suggesting the gaps that needed to be filled and priorities for harmonisation. The preparation phase to a large extent concluded with publication of the implementation package in July 1996, setting out the statistical requirements in some detail.

The WGS had formed an idea of the time it would take to introduce the statistical changes from a survey undertaken in 1995: 12-40 months, depending on the area of statistics and the Member State concerned. (This was subsequently narrowed to 18-30 months in the phasing-in report described below.) Timely implementation would thus already have been impossible if Stage Three were to have started at an early date (beginning of 1997) as envisaged in the Treaty; and it was clear that, whenever Stage Three started, no conceivable interim period between the decision to proceed and the start of Stage Three would suffice for implementation, which would therefore have to begin well before the decision to proceed and the decision on the initial composition of the euro area, and also well before the ECB was established and the Governing Council could decide on certain key issues. In the circumstances, some wasted effort, and also some unmet needs, seemed inevitable. The trick was to keep both to the minimum.

Before preparing the implementation package, the WGS had sought the EMI Council's support for the proposed approach to implementation in the report on *"Phasing-in the statistical requirements for Stage Three of Monetary Union"* (January 1996), covering mainly the areas of statistics for which the ECB was to have full or shared competence. The report recognised that implementation would have to be carried out under national law or other national arrangements, since the EMI, although equipped by the Treaty with a mandate to prepare for Economic and Monetary Union, had no legal powers to compel other bodies to make preparations, and implementation would have to be complete or at least well advanced by the time the ECB was able to legislate. The report also acknowledged other impediments to early implementation, while stressing the risks of delay and the probability that delay would mean forced implementation at the last moment with attendant high costs. The report noted two especially difficult but critical areas, namely the distinction between business with euro area residents and with non-residents of the euro area (the MUMS/non-MUMS split), and compiling a list of MFIs which would constitute the reporting population for banking statistics. The report presented a timetable which, starting from finalisation of the implementation package in mid-1996, allowed the rest of 1996 for identifying and planning changes to national reporting systems, designing new reporting forms, and discussing new requirements with reporting institutions; the whole of 1997 for implementing the changes by reporting agents and NCBs themselves, and also for preparing common estimation methods and standard statistical procedures; the first quarter of 1998 for submission of proxy banking and balance of payments data; and the rest of 1998 (from the decision of the European Council to proceed with Economic and Monetary Union, the composition of which would then be known) for introducing the MUMS/non-MUMS split and transmitting the first euro area data to the ECB for testing and analytical use. This report therefore established the framework for implementation. The details of reporting at national level (compliant of course with the implementation package requirements), and all negotiations with reporting agents, were to be carried out by the NCBs. The role of the EMI/ECB was to monitor progress, share information about problems encountered and solutions found, and generally to coordinate the process. The EMI/ECB would also prepare the legal and technical infrastructure for statistical work in Stage Three, and through Eurostat seek to ensure that satisfactory general economic statistics relating to the euro area would be available for monetary policy purposes. The stated aim – reflecting the provision of Article 5.3 of the Statute (*"harmonisation…where necessary"*) – was *"to achieve consistent statistics of good quality, and not to impose a common collection system or uniform concepts disregarding differences in the structure and functioning of national financial systems."* As later chapters will show, there were many occasions on which such national differences made it difficult to agree on a common standard and on how far to go in enforcing it.

Monitoring progress with implementation was an almost continuous process which took the visible form of reports from the WGS/STC to the EMI Council/ECB Governing Council in April and November 1997 and April and October 1998. There was also a short supplementary report concerning expected availability of monetary statistics to contribute to the development of the monetary policy strategy, with a letter from the WGS Chairman to the Executive Board member responsible for statistics, discussed by the Governing Council in July 1998. During this period the EMI/ECB also published documents designed to assist and encourage implementation (a manual to help sectorisation in money and banking statistics; a compilation guide covering about 40 issues facing compilers in the same area; and a description of recommended practices and existing national practices in balance of payments statistics).

The difficulties noted in the first (April 1997) monitoring report tended to recur in later reports. The April 1997 report was accompanied by a provisional list of MFIs, but no money market funds were included. The report said that it was an urgent task to identify MMFs for inclusion in the list, because these institutions would have to prepare to report and other MFIs would have to classify positions with them appropriately. In practice, as Chapter 5 will explain, criteria for identifying MMFs proved highly contentious until late in the implementation phase, and they did not start to report data until 1999.

Other recurrent difficulties in money and banking statistics were the analysis of certain assets and liabilities by original as opposed to residual maturity; predictably, the MUMS/non-MUMS split across the whole balance sheet; sectorising cross-border business within the euro area; and the tight timetable for reporting agents implied by the 15-working day deadline for submission of MFI balance sheet data by NCBs to the ECB, determined by the expected schedule for Governing Council meetings. Difficulties in balance of payments statistics concerned the geographical analysis of cross-border business (the MUMS/non-MUMS split in balance of payments transactions), achieving consistency between international investment position statistics and the balance of payments, data for the new capital account as required by the 5th IMF Manual (adopted as the standard, with minor exceptions, by the EMI), and, more substantially, the treatment of portfolio investment in the financial account. The lack of a complete (even if summary) monthly balance of payments for the United Kingdom and Ireland was another long-recognised difficulty. Although the monitoring report mainly covered areas of statistics for which the EMI/ECB had full or shared responsibility, it is noteworthy that the April 1997 report was already questioning the likely availability of data covered by the proposed EU Council Regulation on short-term (conjunctural) indicators: *"In the light of the necessary long lead time for implementation (not to mention possible transitional exemptions which some Member States may manage to obtain), there must be doubts whether satisfactorily harmonised and timely data in these areas will be available for the start and perhaps the early years of Stage Three"*. The monitoring report noted progress with the IT and legal statistical infrastructure (where a draft Council Regulation concerning ECB statistics had already been published in the EMI's framework report – the preparation of this important Council Regulation is described in Chapter 18[11]), and with the development of a publication policy. The first monitoring report was accompanied by a set of country tables showing missing data and indicating when data meeting the requirements would become available.

The second monitoring report in November 1997 noted that a provisional list of MFIs had been published (September 1997), though as yet without any MMFs. The report listed the criteria that were being used to identify MMFs, but noted that Spain and Luxembourg had considerable reservations about the exercise. It had become clear that foreign trade statistics were likely to be a problem area in the monthly balance of payments, because INTRASTAT data on trade flows within the European Union (relevant to the euro area balance of payments so long as some Member States remained outside the euro area) contained serious inaccuracies and could not anyway be available in time to meet the ECB's timetable for monthly balance of payments statistics. The report acknowledged a potential threat to consistent and reliable HICP data in the early part of Economic and Monetary Union: planned enhancements to the index (some of them to be delayed from early 1998 to avoid compromising the assessment of convergence) without adequate back data would complicate interpretation of the index. The report also outlined a transitional approach for general economic statistics, recognising that the proposed EU Council Regulation on short-term statistics would not fulfil all requirements by the start of Stage Three, not least because of numerous derogations allowing individual Member States to delay implementation of one part or another.

The third monitoring report (April 1998) noted significant further progress, but listed areas of concern where a satisfactory resolution was now becoming urgent. The most important of these related to the early availability of monetary statistics covering the euro area for planning the ECB's monetary policy strategy, since it now seemed that it might not be possible until the last quarter of 1998 to compile monetary aggregates with enough reliable back data to make them useful (the implementation package had requested the first current data by mid-1998, with back data by September). NCBs, acutely aware of the problem facing the ECB, would try to provide at least a limited

[11] Article 117(3) of the Treaty required the EMI by end-1996 to *"specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks"*. The framework report was published by the EMI in January 1997.

number of key series in good time. Other concerns were delays to statistics relating to the Eurosystem itself (largely outside the control of statisticians, but nevertheless important because the Eurosystem would form part of the MFI sector); MMF data, which would have to rely initially on estimations (the "final" list of MFIs had however by then been released); the probable quality of interest rate statistics, based as agreed on a transitional approach; and delays caused by time pressure in the EMI in preparing data from existing sources on securities issues, financial intermediaries other than MFIs, and financial derivatives. While several Member States had already introduced new reporting procedures compliant with the implementation package, the report noted that the Deutsche Bundesbank would keep its current reporting system right up to the end of Stage Two for national monetary policy reasons, though close approximations to the new data would be available from mid-1998. The report also noted that the WGS was considering production of a manual on flow statistics in view of difficulties with deriving flows from balance sheet data in some Member States. Problems with the strict timeliness requirements for MFI balance sheet data were now thought likely to be temporary, and initial difficulties with original (rather than residual) maturity cut-offs were near solution in the Member States likely to form the euro area. On the balance of payments side, proxy euro area data were already being produced on a net basis (thereby avoiding the need for a MUMS/non-MUMS split). Continuing concerns were the lack of reliable monthly data for Ireland; the timeliness of (in particular) trade data derived from INTRASTAT; some remaining divergences from the 5th IMF Manual; and differing practices in making a geographical allocation of portfolio investment flows. Against the background of implementation of the ESA 95 Regulation and finalisation (but not yet enactment) of the Regulation on short-term statistics, the report noted further efforts to provide at least a basic minimum of general economic statistics covering the euro area for the start of Stage Three. It noted that Eurostat would publish an HICP for the euro area in May 1998, as soon as the initial composition of the area had been decided.

In the light of the April 1998 report, the EMI Council gave strong support to the final statistical preparations, especially the early availability of monetary statistics (both current and back data) to help prepare the monetary policy strategy. The Chairman of the WGS wrote to the ECB Executive Board member responsible for statistics in June 1998 attaching a further short report on the expected availability of monetary data in the coming months: following further exertions, the report expected the first set of data, although covering only around 90% of the euro area and including significant estimations, to be available by the beginning of August. The 15-working day timeliness requirement was unlikely to be fully satisfied before the end of the year, and it would probably be March 1999 before a complete set of MFI balance sheet data (including MMFs) could be collected with no need for estimations. All central banks would provide best estimates back to September 1997, and most would provide historical data (in some cases back to 1980) by September 1998. Ways had been agreed to provide transitional fall-back data for monetary policy preparations.

The fourth and last monitoring report (October 1998) reflected the first experience with implementation package data. Current MFI balance sheet data, and for most euro area countries back data to September 1997, were now available, as were earlier proxies for monetary aggregates. The tight timetable for data contributing to the monetary statistics continued to cause difficulty, with some sacrifice of quality needed to meet it; MMF data could not be ready before 1999, and estimates were meanwhile necessary; moreover, some NCBs could not yet provide data to calculate flows from balance sheet levels. A minimum reserve system had now been fully specified. Further data for minimum reserves purposes, in addition to the data already included in the implementation package, would be voluntary to end-1999 and, with one exception, mandatory thereafter (it was possible to adopt this procedure because the extra data not already included in the implementation package would reduce a credit institution's obligation to hold reserves; if a credit institution could not provide the extra data, its reserve base would be larger than otherwise).

Timeliness was also a continuing problem in balance of payments statistics, with some Member States still unable to meet the deadline of six weeks for monthly key items. While some different practices in compiling the capital and financial accounts continued, and were likely to survive through 1999, the report noted generally good progress with harmonisation. Remaining problems included the recording of financial derivatives, various issues relating to direct investment, the geographical allocation principles in portfolio investment, and the treatment of repos, bond lending, etc. and of trade credit. Ireland continued to use much estimation in providing monthly data on key items (the lack of monthly data for the UK balance of payments was now of no immediate concern since the United Kingdom would not be part of the euro area at the start). In general economic statistics, the report noted continuing gaps and deficiencies despite enactment of the short-term statistics Regulation and adoption of the ESA 95. Poor timeliness was a common problem. The October 1998 report noted that the Monetary Committee, following discussion among ECOFIN Ministers in June, had meanwhile set up a Working Group on Statistics, including representatives of the ECB, to improve EMU statistics in this area. Much in line with ECB concerns at the time, the Monetary Committee's first report identified quarterly national accounts, quarterly public finance statistics, labour market data and short-term conjunctural statistics as most needing urgent improvement.

The Governing Council authorised the first publication of euro area monetary statistics, covering the period from September 1997 to October 1998, in mid-December 1998. The first regular monthly monetary statistics release, of November 1998 data, followed at the end of December. These data, together with heavily qualified monthly data on retail interest rates, and other available financial and economic data covering the euro area, though with many gaps, were reproduced in the first issue of the ECB's Monthly Bulletin in mid-January 1999. The first monthly balance of payments data for the euro area (for January and February 1999) were published in April 1999, and the first securities issues statistics in November 1999.

Annex

Summary "phasing-in" timetable

Deadlines	Common aims, "horizontal" considerations	Money and banking statistics	Balance of payments statistics	Financial accounts, "vital interest" and other general economic statistics
1996, Q1		EMI finalises the harmonisation proposals relating to differences in definitions used in the Member States and the definition of ECB data requirements, taking particular account of the layered approach (incl. derivation of flows and the possibility of any system of positive reserve requirements)	EMI finalises the harmonisation proposals relating to differences in definitions used in the Member States and the definition of ECB data requirements	Examine with the Commission the possibility of obtaining early ESA 95 data on a voluntary basis and of ensuring transparent conversion between ESA 79 and ESA 95 Interim Indices of Consumer Prices; review and prioritise the list of necess. other gen. econ. data with the users
1996, Q2	Project team for data transmission project is selected	Identify necessary changes for implementing them in national reporting systems	Harmon. prop., incl. geogr. alloc., finalised accord. to priority list; quarterly data as per IMF 5th Manual in preparation	Enhance data exchange with the Commission (Eurostat)
1996, Q3	NCBs prepare plans for changing reporting system; design reporting forms	Redefine reporting systems; discussions with reporting institutions	idem	
1996, Q4	idem	idem	idem	
1997, Q1		Implement list of MFIs, definitions of residence & sectors and other conceptual & technical changes; implement common estimation methods & adjustment procedures	Quarterly data as per IMF 5th Manual available; implement common estimation methods & adjustment procedures	Harmonised Indices of Consumer Prices
1997, Q2		idem	idem	
1997, Q3		idem		
1997, Q4		idem		
1998, Q1	EMI/ECB and NCBs assess and improve data quality	idem Proxy series reported to the EMI/ECB	Proxy series reported to the EMI/ECB	
1998, Q2	idem	Implement MUMS/non-MUMS split starting with data for 1998, Q1; transmit MU consolidated data to the EMI/ECB for testing and analytical purposes	Implement MUMS/ non-MUMS split	
1998, Q3	idem	idem	idem	
1998, Q4	idem	idem	idem	

Source: WGS report to EMI Council, January 1996

Money and banking statistics

Chapter 5

What is a bank?

The three main elements in designing banking statistics. Development and application of the definition of a monetary financial institution. The connection to a possible minimum reserve requirement. The quest for an all-purpose workable definition of a money market fund. Reporting exemptions for small institutions. The MFI list.

There are three distinct elements in banking statistics:
1. Which institutions are to provide balance sheet data? This is the “what is a bank?” question and the development and application of the MFI definition, discussed in this chapter.
2. How is the information to be put together? This concerns the architecture of money and banking statistics, the subject of Chapter 6.
3. What balance sheet information are they to provide? Instruments, maturity breakdowns and sectoral analysis are the subject of Chapter 7.

The development and application of the MFI definition

Despite a large common element in the banking sectors of EU Member States, there were many differences in the early 1990s – the treatment of building society-type institutions, for example, and of institutions extending consumer or business loans but financing themselves through commercial bank borrowings or bond issues rather than by taking deposits from the public. Money market funds, a category of collective investment institutions, were nowhere included in the banking sector, though in France their units/shares were included in M3 and indeed accounted for a substantial proportion of it. In its May 1991 report on harmonised monetary aggregates, the Economic Unit of the Committee of Governors Secretariat stressed the need for consistent definitions of the money issuing and holding sectors across Member States. The December 1992 report from the WGS to the Committee of Governors on user requirements said that “*it is necessary to clarify and agree upon EEC-wide definitions to be used in money and banking statistics for banks versus non-banks, for the private versus the public sector etc. In particular, with regard to the definition of ‘banks’, attention needs to be paid to the issue of how to treat building societies and other similar credit institutions.*”

There were some relevant starting considerations. The “banking” sector (from this point referred to as the monetary financial institutions sector, though this is an anachronism since the name was not chosen until October 1993)[12] would comprise the

[12] The choice of name reflected a wish to avoid “bank” or “banking”, since these terms mean different things across the European Union, while using words descriptive of the institutions concerned. The term “depository corporations” used in the SNA 93 did not seem suitable since, as will be seen, the sector would include institutions which do not take deposits.

institutions whose liabilities would form much the largest part of the monetary aggregates of the euro area,[13] and which would constitute the reporting population for the ECB's money and banking statistics. The composition of the monetary aggregates in the euro area would be for the ECB's Governing Council to decide upon and was therefore unknown, but the Committee of Governors' measure M3H was a guide. Statistical quality demanded consistency in the composition of the sector across the European Union. Since the institutions would be subject to legal reporting obligations, there were level playing field as well as statistical quality reasons for a high degree of consistency across Member States. A second consideration was the possibility of a minimum reserve requirement in the euro area. Since there might be reasons to make the reserve requirement coincide so far as possible with the components of broad money, and the reserve requirement might be burdensome, there was further reason to achieve consistency across Member States in identifying MFIs. A third consideration was the ESA 95, at that time in preparation. MFIs would form a sub-sector (S 121 – central banks, and S 122 – other MFIs, in the final version) of the sector "financial corporations" (S 12), and consistent sectorisation across Member States was important to broader considerations of statistical quality. The Eurosystem's probable choice of counterparties in conducting market operations was not a consideration in developing and applying the MFI definition; indeed, the WGS questionnaire (July 1993) specifically excluded it.

Existing Community legislation on banks and banking activities was also relevant. It took the form of the Banking Coordination Directives on *"the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions"* of December 1977 (77/780/EEC, BCD1), amended by a Council Directive in October 1986 (86/524/EEC), and again in December 1989 (89/646/EEC, BCD2). The BCDs are about competition and regulation in the financial services industry, not about monetary policy and statistics to support it. Nevertheless, the BCD definition of a credit institution as *"an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account"* clearly had to be considered.[14] The December 1989 Directive contains a list of activities any or all of which an authorised and supervised credit institution may undertake in any Member State. The Commission periodically publishes a list of authorised credit institutions compiled by Member States in the light of the Community definition.

In July 1993 the WGS requested the views of the Monetary Policy and Foreign Exchange Policy Sub-Committees and of the Economic Unit on a harmonised Community definition of an MFI for statistical purposes. The Banking Supervisory Sub-Committee was kept informed. Although the MPSC appears to have been ambivalent on the question of MMFs when discussing harmonisation of monetary aggregates in 1991, users confirmed that for purposes of monetary analysis a broader definition than the BCD definition of credit institution would be needed; it would be important to avoid any gap in the coverage of the financial institutions whose activities directly affect money creation (meaning institutions with money-like liabilities).

[13] The euro area monetary aggregates also include certain monetary liabilities of central government.

[14] This is the definition in Article 1 of BCD1. However, a recital amplifies the definition to read "*institutions whose business is to receive repayable funds from the public whether in the form of deposits or in other forms such as the continuing issue of bonds and other comparable securities*".

Nevertheless the BCD definition was a starting point; indeed, the December 1993 WGS report to the Committees of Governors stated that the Community list of credit institutions would be a sub-set of the list of MFIs. The mention of "credit institutions" in Article 19.1 of the Statute (which concerns minimum reserve requirements), and the wish to avoid the confusion that would have arisen if some institutions meeting the Community definition of credit institution had not been classed as MFIs, was a consideration here.

Nevertheless, the BCD definition was not fully satisfactory as a statistical definition, and it soon became apparent that it was not applied consistently in Member States in any case. The words *" receive deposits or other repayable funds"* left open the possibility that the "other repayable funds" might not be close substitutes for deposits – long-dated bonds, perhaps, since "repayable" without further qualification would rule out only equity and irredeemable bonds. The meaning of *"from the public"* was unclear, and might be understood to exclude institutions which took funds from financial and non-financial corporations, from government, or from abroad, but did not tap "retail" sources of funds. The two-part criterion in the BCD definition (*"to receive deposits … and to grant credits"*) was also questioned in the course of the user consultation, though as will be seen below, it was retained in the MFI definition. Perhaps the key concern was the existence of many institutions with what were arguably monetary liabilities that were not classed as credit institutions on the grounds that their liabilities were not deposits or other "repayable funds" and/or that they did not "grant credits".

The WGS accordingly proposed the following definition in the December 1993 report to the Committee of Governors:

"MFIs comprise resident Credit Institutions as defined in Community law, and all other resident Financial Institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account, to grant credit and/or to make investments in securities."

This definition therefore embraces credit institutions as defined somewhat differently in Community law. Other MFIs (the position of the first comma is important) must:

- be financial institutions, i.e. in S 12 in the ESA 95. They may not be non-financial enterprises or governmental institutions which nevertheless undertake some financial activity, or issue liabilities which may resemble some monetary instruments (e.g. Treasury bills, commercial paper);
- have financial activity of the sort defined as their business, and not undertake it only occasionally, or incidentally to their main business;
- *"receive deposits and/or close substitutes for deposits"*. The report explained that close substitutes for deposits would mean marketable or potentially marketable instruments including certificates of deposit and other comparable securities, and shares or participation certificates in money market funds. The notion of close substitutability for deposits was further expounded in a later report and is explained below;
- take funds *"from entities other than MFIs"*, a more specific criterion than "from the public" in BCD1. Thus institutions which take funds only from (non-monetary) financial institutions, non-financial corporations, government agencies or indeed non-residents may still be classified as MFIs;
- *"receive deposits … and, for their own account, … grant credits"*. As financial institutions, MFIs are engaged in financial intermediation. They do not simply act as agents for others, but place themselves at risk in their lending activities;

- *“grant credits and/or …make investments in securities”*. Institutions that do not extend loans but provide financing by taking up securities may thus be classified as MFIs.

There was a subsequent amendment to the definition in the December 1993 report, and there then followed several important developments to clarify the notion of “close substitutes for deposits” and make it workable, to identify MMFs, and to produce a list of MFIs for statistical purposes (paying regard to its relationship with the Community list of credit institutions).

The need for an amendment to the definition arose from the case of MMFs. MMFs have no capital to absorb losses. (In reality, their exposure to risk is slight, because of the nature of their assets.) Could they therefore be said to lend “for their own account”? In practice, many MMFs are set up and operated by financial corporations, which are perceived by holders of the shares/units in the MMF to stand behind the MMF and limit any risk of loss through use if necessary of their own capital. An amendment to the definition in a November 1994 WGS report to the EMI Council was intended to capture the idea that MMFs, though without capital of their own, might in practice draw on the resources of another institution: *“and all other resident Financial Institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account (at least in economic terms), to grant credits”*. The point was briefly explained in a supplementary note. The November 1994 report noted that the MFI definition (as amended) had been adopted by the Commission for inclusion in the ESA 95 (where the MFI sub-sector would cover S 121, central banks, and S 122, other MFIs).

How should “close substitutes for deposits” be understood? Drawing on relevant work on substitutability among financial assets in 1995, a WGS report to the EMI Council in January 1996 (*“Preparation of the list of MFIs”*) suggested that financial instruments issued by financial institutions should be examined on the basis of their liquidity, which in turn had four aspects:

- transferability – can the instrument be mobilised to acquire goods or repay debt?
- convertibility – if the instrument cannot itself be transferred, can it be converted into currency or transferable deposits at low cost?
- certainty – to what extent is the liquidation value of the instrument known in advance, in terms of national currency?
- marketability – can investors liquidate their asset without setting the price against themselves?

The January 1996 report further applied these ideas to the identification of MMFs, the inclusion of which in the MFI sector had already been indicated in the December 1993 report, in line with users’ wishes. The absence of a definition of MMFs in European legislation,[15] and variation in national definitions where such institutions existed, made a common definition essential. In adopting the January 1996 report, the EMI Council confirmed that MMFs would form part of the MFI sector. It was clear however that potential MMFs would need to be examined carefully to check that they conformed to the MFI definition, not least because of tax provisions which might affect the liquidity of their shares/units in practice. The point about tax provisions and liquidity was especially relevant in Spain.

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[15] Though Council Directive 85/611/EEC relating to undertakings for collective investment in transferable securities (UCITS) defines UCITS, of which MMFs are a category.

Given that MMFs were to be included in the MFI sector, the question arose of their treatment in the system of minimum reserves (if there were to be any). If reserve requirements were to be imposed on MMFs, it was apparent that it would be important to have a legal definition of MMFs, since a definition chosen for statistical convenience, however appropriate for that purpose, might not stand up to the legal challenge which would be likely if what could amount to a tax were involved. The need for a legal definition was separate from the question of whether the present wording of Article 19.1 of the Statute (*"the ECB may require credit institutions … to hold minimum reserves"*) was sufficient to cover MMFs, or whether – the predominant view – it would be interpreted to mean credit institutions as defined in the BCDs and so require amendment if MMFs were to be covered.

In practice, work on a legal definition of MMFs did not begin for some time. Meanwhile the work to give substance to the statistical criteria progressed with further studies in the course of 1996 and 1997. The WGS devised certain criteria for deciding whether an investment fund was an MMF or not (transaction fees – high fees would exclude the fund; national legal or administrative categories; the stated purpose of the fund). These criteria were listed in a WGS paper *"Implementation of the MFI list – guidelines for the identification of MMFs"*, presented to the EMI Council at its July 1997 meeting. The substantial purpose was to classify as MMFs those institutions whose shares/units have the liquidity characteristics of the "close substitutes for deposits" in the MFI definition. Price volatility tests were devised but, despite varying national practice, the emphasis lay on legal or administrative status or on the stated purpose of the fund, on the grounds that investors seeking a close substitute for bank deposits are more likely to be influenced by these considerations than by evidence of stability in the share or unit price, which may be difficult to collect and anyway could prove temporary. Where however CIIs do not display such institutional or market features, they may be selected for inclusion in the MMF population on the basis of a price certainty test, comparing in terms of volatility the return on their shares with that from money market rates. Although MMFs do indeed principally hold short-term assets, and statistical work was performed on the average duration of their portfolios, the WGS chose not to make a particular structure of the portfolio a criterion for selection, on the grounds that changing portfolio structures might make the composition of the MFI sector unstable, and in any case use of derivatives to manage risks might weaken the relationship between portfolio structure and the stability of the share/unit price. These considerations, the choice of criteria to represent them, and the hierarchy of criteria, emerged only after difficult discussion among statisticians, in the WGS and in a sub-group set up in February 1997 to carry the matter forward, and with users. A particular difficulty concerned the relative importance of legal/administrative and "economic" considerations, and thus the role of an ex ante criterion – the legal or administrative status of the fund, or its stated purpose – and an ex post criterion, namely its performance in terms of the observed stability of the share/unit price.

After much careful discussion, an ad hoc working group comprising statisticians, lawyers and monetary policy experts devised a new all-purpose definition.

This is the definition, with brief notes explaining the terms used, which was incorporated in Annex 1 of Regulation ECB/1998/16 concerning MFI balance sheet statistics, and so was the definition in force at the start of Stage Three:

"MMFs are those collective investment undertakings of which the units are, in terms of liquidity, close substitutes for deposits, and which primarily invest in money market

instruments and/or in other transferable debt instruments with a residual maturity up to including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. The criteria identifying MMFs may be derived from the public prospectus, fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effect, of the collective investment undertakings."

Behind this protracted debate lay strong reservations in a few Member States about the inclusion of MMFs in the monetary sector at all, and a rather wider concern about requiring such institutions to hold minimum reserves. In the event, Article 19.1 of the Statute was not amended and reserve requirements were imposed on credit institutions only. Thus reserve requirements do not coincide, in institutional or indeed instrumental coverage, with M3, though the fit is quite close.

Identifying MMFs was not the only source of difficulty in preparing the list of MFIs, though it was the most intractable and enduring. The January 1996 WGS report had already identified three types of institution (other than CIIs) where questions arose. Limited function institutions are specialised financial institutions undertaking a limited range of activities (e.g. mortgage institutions, leasing corporations). Some NCBs had provisionally included them in the MFI list, while others had not. Exempt credit institutions are credit institutions which are exempt from the scope of the BCDs (e.g. NCBs, Post Office banks). Offshore banks are for the purpose of the report banking institutions located in territories which are part of the statistical area of a Member State but are not themselves part of the European Union. Limited function institutions were examined individually to check whether or not they met the MFI definition. Exempt credit institutions were included as MFIs (the NCBs, with the ECB, forming S 121 in the ESA 95). Offshore banks were in general excluded.[16]

In the process of compiling the MFI list, NCBs examined carefully, institution by institution, the Community list of credit institutions in their country because – as the January 1996 report noted – "*According to the MFI definition agreed last year* [the December 1994 WGS report was presented to the EMI Council in January 1995], *Credit Institutions named on the Community list are MFIs* [in fact, the definition said "*Credit Institutions as defined in Community law are MFIs*", which is somewhat different]. *However, Community law relating to Credit Institutions has not been enacted in an identical way in every Member State, which creates difficulties in the implementation of the MFI definition.*" Perhaps because classification as a credit institution under the BCDs gave the right to provide certain financial services throughout the European Union, some institutions which seemingly did not fully meet the BCD definition of credit institution had nevertheless been classified as such – in some cases they may not even have been financial institutions (S 12 in the ESA 95). Such institutions should be

[16] The question of issuers of electronic money (e.g. prepaid cards that can generally be used to make payments) arose later. It appeared that practically all e-money was in fact issued by credit institutions, which would report amounts outstanding in their statistical returns. Nevertheless (any other) e-money issuers were included in the ECB's reference reporting population (Article 2 of Regulation (EC) No 2533/98 – for details, see Chapter 18). The question was effectively closed so far as the statistical reporting population is concerned by European Parliament and Council Directive 2000/46/EC, which ensures that any e-money issuer is a credit institution.

removed from the list of credit institutions and so from the MFI list, since similar institutions should be treated in the same way in all Member States.

Classification as an MFI does not necessarily mean that an institution must provide full statistical returns. Even the December 1993 report recognised that small MFIs might be excused some reporting obligations: "*Since the objective will be that a sufficiently comprehensive statistical picture of the monetary developments in the Monetary Union can be drawn up, adequate exemption regimes can be foreseen for MFIs whose business does not exceed certain precise thresholds or whose proportion of monetary liabilities is negligible.*" In practice the "cutting off the tail" approach finally adopted (WGS report to the EMI Council dated July 1996), recognising that the composition of the euro area would not be known until spring 1998, and the exact definition of monetary liabilities not until some months later, gave NCBs the discretion to offer exemptions on a national basis, provided the MFIs supplying monthly balance sheets returns made up at least 95% of the total national MFI balance sheet. The result is that the exemption threshold depends on the profile of the national MFI population and so varies among Member States, and is not directly related to monetary liabilities. For euro area aggregates, it might have seemed more natural to apply a common threshold across the euro area, with the aim of ensuring a particular coverage of monetary liabilities in the area as a whole. A common threshold might however have prevented the compilation of meaningful national results in some Member States, and in any case could not have been implemented in time to give to small institutions effective relief from implementation costs. "Tail" institutions which are credit institutions must report some information quarterly, for minimum reserve purposes. Other "tail" institutions (mostly MMFs) must report at least a total balance sheet annually, to enable the NCB to check that the 95% coverage is being maintained and to provide information for grossing-up purposes. The WGS calculated that a 95% coverage would potentially release some 70% of MFIs from the obligation to meet the full reporting requirement. The arrangement could therefore substantially reduce the reporting burden on the small institutions most likely to have difficulty in meeting it. In practice, because balance sheet statistics may be used for prudential supervision and other purposes, in some Member States all or nearly all MFIs must report monthly. Nevertheless, at the start of Stage Three about a quarter of MFIs in the euro area benefited from the exemption.

Liabilities of MFIs (including the NCBs) do not account for the whole of monetary aggregates in the euro area. Although in most Member States coin is issued by the government, by convention the NCBs include the amount in issue in their own statistical returns with a corresponding entry in "remaining assets". In several Member States the central government (via the Treasury or the Post Office) also takes deposits from the public; in some cases the amounts are small, but in France and Italy the amounts, some EUR 50 billion each at the start of Stage Three, are more substantial. NCBs submit data on these monetary liabilities of government to the same timetable as the MFI balance sheet data; the ECB includes the amounts in the monetary aggregates depending on the nature of the liability, with appropriate corresponding entries in the counterparts. Including such liabilities in euro area broad money does not make the entities which issue them MFIs. They are all part of the general government sector (S 13 in the ESA 95); the ESA 95 is clear that an institutional unit may belong to only one sector or sub-sector.

The MFI list

Previous paragraphs have described how the definition of MFIs developed and the background to the inclusion of money market funds in the MFI sector. Subject to the "cutting off the tail" procedure, MFIs constitute the reporting population for the ECB's money and banking statistics. For correct classification of interbank business for statistical purposes, reporting MFIs must be able to identify their business with other MFIs. As Chapter 7 will explain further, credit institutions as defined in Community law which are resident in the euro area were from the start of Stage Three obliged to hold minimum reserves under Council Regulation (EC) No 2531/98 and Regulation ECB/1998/15. It is the MFI balance sheet for statistical purposes from which an institution's reserve base is calculated, as decided by the EMI in December 1995. In order to calculate their reserve base correctly, credit institutions covered by the Eurosystem's minimum reserve requirements must be able to identify those of their counterparties which are also subject to the Eurosystem's minimum reserve regime, since liabilities to other such institutions are deductible in calculating the reserve base. For these statistical and operational reasons the ECB must publish an up-to-date list of MFIs and identify those MFIs on the list which are obliged to hold minimum reserves.

By the time of the implementation package (July 1996), central banks, applying the definition proposed in the December 1993 report to the Committee of Governors as amended in the November 1994 report to the EMI Council, had already prepared provisional lists of MFIs, though no MMFs were included at that stage and no list was released with the implementation package. Although it was clear that almost all institutions currently classified nationally as credit institutions would be MFIs, and that these would comprise the bulk of the MFI sector, it was necessary to publish a list well before the new reporting started, in order to give institutions time to prepare. A provisional MFI list of some 10,000 financial institutions in the EU was accordingly published in September 1997. The provisional list related to end-1996. The foreword explained that MMFs would be included in an addendum to be available later in the year. The provisional list consisted, for each Member State, of names and addresses of MFIs with, for MFIs which were foreign branches, the country of domicile of the parent bank. The addendum was duly published in December 1997. The foreword explained that it contained the first results of the classification of MMFs following the criteria described above. Some 1,500 institutions were listed, about three-quarters of them in France and Luxembourg. Portugal could identify no MMFs meeting the common criteria, and Finland listed none (as at end-1996), having only recently introduced legislation permitting them.

In the event, as noted above, it proved difficult to reach this point. The provisional list of MFIs was released in September with only a mention of work in progress on MMFs, and no criteria for selection because these could not be agreed in time. The addendum was published as soon as practicable after receipt of a provisional list of MMFs from all Member States which had them. The issue of the range of institutions which would be subject to any reserve requirements probably contributed to the difficulty.

The MFI list was reissued in April 1998 in "final" form, meaning that the list had benefited from stricter quality control in the interests of achieving a good degree of homogeneity across the European Union. It was this list, amended as necessary to reflect the establishment of new institutions, closures, and mergers, which constituted the reporting population at the start of Stage Three. It might be noted that the list was, and remains, informative; strictly speaking, it is conformity to the definition, not inclusion in the list, which creates the obligation to report.

Thus far information contained in the MFI list had been transmitted in various ways, requiring manual intervention. Checking and viewing facilities were rudimentary. Only basic security was available (or necessary, given that the information held in the database was all public information). It was clear that, when the list became operational, less labour-intensive means would be needed to keep it up to date, and to disseminate the information. A project began in late 1997 to develop the MFI database, and also two similar applications to hold data on Eurosystem counterparties (in the event, a sub-set of the MFI sector) and on eligible assets (financial instruments admitted for use in Eurosystem operations). The first phase of this project is described in Chapter 20.

At the beginning of Stage Three, therefore, the MFI statistical database consisted of a list of MFIs, as homogeneous as possible across the EU, updated promptly to reflect changes in the population, with partially automated procedures for taking on and disseminating the information via a monthly release on the internet.

Annex

Monetary financial institutions

1. The European Central Bank (ECB) establishes and updates on a regular basis the list of MFIs for statistical purposes in accordance with the classification principles outlined below. One important aspect is financial innovation, which is itself affected by the development of the Single Market and the move to monetary union, both of which affect the characteristics of financial instruments and induce financial institutions to change the focus of their business. Procedures for monitoring and continuous checking ensure that the list of MFIs remains up-to-date, accurate, as homogeneous as possible and sufficiently stable for statistical purposes. The list of MFIs for statistical purposes includes an entry on whether or not institutions are legally subject to the ESCB minimum reserves system.

2. Thus, in accordance with the definition set out in Article 2(1) of this Regulation, the MFI sector comprises, in addition to central banks, two broad groups of resident financial institutions. These are *credit institutions* (CIs) as defined in Community law ('an undertaking whose business is to receive deposits or other repayable funds from the public – including the proceeds arising from the sales of bank bonds to the public – and to grant credit for its own account')[17] and other MFIs, i.e. other resident financial institutions which fulfil the MFI definition, irrespective of the nature of their business. The degree of substitutability between the instruments issued by the latter and the deposits placed with credit institutions determines their classification, provided that they meet the MFI definition in other respects.

3. Substitutability for deposits in relation to financial instruments issued by financial intermediaries other than credit institutions is determined by their liquidity, combining characteristics of transferability, convertibility, certainty and marketability, and having regard, where appropriate, to their term of issue.

4. For the purpose of defining substitutability for deposits in the previous paragraph:

   — *transferability* refers to the possibility of mobilising funds placed in a financial instrument by using payment facilities, such as cheques, transfer orders, direct debits or similar means,
   — *convertibility* refers to the possibility and the cost of converting financial instruments into currency or transferable deposits; the loss of fiscal advantages in such conversion may be considered a kind of penalty that reduces the degree of liquidity,
   — *certainty* means knowing precisely in advance the liquidation value of a financial instrument in terms of national currency, and
   — securities quoted and traded regularly on an organised market are considered to be marketable. For shares in open-end collective investment undertakings, there is no market in the usual sense. Nevertheless, investors know daily the quotation of the shares and can withdraw funds at this price.

5. In the case of collective investment undertakings (CIUs), money market funds (MMFs) fulfil the agreed conditions for liquidity and are therefore included in the MFI sector. MMFs are defined as those CIUs of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in other transferable debt instruments with a residual maturity up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. The criteria identifying MMFs may be derived from the public prospectus, fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effect, of the CIUs.

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[17] Banking Coordination Directives (77/780/EEC of 12 December 1977 and 89/646/EEC of 30 December 1989), which include the 'exempt credit institutions'.

Source: Regulation ECB/1998/16, Annex I

Chapter 6

The architecture of money and banking statistics – the "layered approach"

Going from banking aggregates to money stock and counterparts. Reclassifications and revaluations – how "flows" were to be derived from balance sheet data.

Chapter 5 considered the question of which institutions are to provide balance sheet data, and the development and application of the MFI definition. This chapter addresses the question of how the information they provide is to be put together, which constitutes the architecture of money and banking statistics. Precisely what balance sheet information they provide is the subject of Chapter 7.

The question of frequency of money and banking statistics was resolved in 1992 with little explicit discussion. The WGS report to the Committee of Governors in December 1992 states that "*[Banks' balance sheet statistics] should be available mostly as end-of-month stocks*" ("mostly" meaning that some detail could be quarterly). End-month stocks had the advantage of continuity with most current national practice.

This second element is the "layered approach", developed in the Money and Banking Statistics Task Force of the WGS from 1993 (with experimental balance sheet compilations dating from early 1994) and presented, without data, in the WGS report to the EMI Council in November 1994. Later reports (April 1996) further elaborated the approach ahead of the implementation package and (July 1996) added proposals for the last layer, the derivation of flow data from reported balance sheet levels. The layered approach is the procedure to be followed by the ECB to construct monetary statistics for the euro area from aggregated MFI balance sheet statistics provided by each NCB and sufficiently harmonised for the purpose. In the layered approach:

Step A aggregates the basic data provided by reporting MFIs to each NCB. MFIs report balance sheet information in such a way that positions with other MFIs (claims or liabilities) are identified, and these and all other positions are broken down into positions with counterparties located in the same Member State, counterparties located in other euro area countries (other MUMS positions), and counterparties located in the rest of the world. Liabilities distinguish between monetary liabilities (those included in broad money) and non-monetary liabilities. These distinctions in the balance sheet are critical. Of course it was not known in 1994 or 1996 which institutions would be in the MFI sector, which Member States would form the euro area, or how broad money would be defined. The purpose was to design the features of a statistical system regardless of how these matters worked out in detail. NCBs (and the ECB) are part of the MFI sector: each NCB provides separately its own balance sheet (as does the ECB) and an aggregated balance sheet covering all other MFIs in its territory; inter-MFI positions are shown gross at this stage, with no consolidation.

In Step B, the data provided by the NCBs are amalgamated by the ECB. NCB and other MFI balance sheets are added together for each country; the summary aggregated balance sheets are added up across the euro area, together with the ECB's balance sheet.

The ECB allocates negotiable instruments to the sector of the holder where necessary for the purposes of monetary statistics. Inter-MFI items remain on a gross basis. The result is the aggregated MFI balance sheet for the euro area.

Inter-MFI positions are netted out in Step C to yield a consolidated MFI balance sheet for the euro area. In principle – apart from negotiable instruments, where MFIs will often be unable to identify holders of their debt – reported inter-MFI liabilities and claims within the euro area should balance out, but in practice they do not do so because non-reporting "tail" institutions must be estimated for and also because of misclassifications and other reporting mistakes or inconsistencies which are in practice ineradicable. The inter-MFI difference has nevertheless proven to be very small in relation to the balance sheet totals. Step C provides monetary aggregates for the euro area in terms of outstanding amounts, ignoring add-ons by the ECB to reflect monetary liabilities of governments. It does not provide money holdings by residents of individual Member States in the euro area.

It was recognised early on that the ECB would not calculate monetary growth simply from the change in levels outstanding. In Step D, changes in monetary aggregates are accordingly compiled by the ECB on a flow basis, i.e. (in ESA 95 terminology) reflecting "transactions" and excluding valuation effects, reclassifications, etc. Monetary liabilities of government are added. The table illustrating Step D in the November 1994 report also contained a proposed presentation for the counterparts to money stock in the euro area.

The November 1994 report included an issue note on the derivation of flows from aggregated balance sheet statistics of MFIs. It distinguished between adjustments which would have to be made each reporting period (e.g. to eliminate the effect of changes in the value of foreign currency items in the balance sheet when expressed in euro terms), and adjustments which might have to be made periodically (e.g. to allow for large write-offs of bad debts). The issues note nevertheless hinted that it might not always be appropriate to adjust for "non-transactions", and also indicated that the data on levels – reflecting what had actually been reported – should not be amended. Thus the published data would comprise aggregated and consolidated balance sheet levels as reported, and flows statistics derived from them but incorporating the proposed adjustments.

Much further thought was devoted to the derivation of flows between the November 1994 report and mid-1996. The procedure – Step D of the "layered approach" – deserves further elaboration. MFIs report outstanding amounts of assets and liabilities on their balance sheets at end-month (or end-quarter for some more detailed items). They convert amounts denominated in other currencies into euro at end-month or end-quarter market exchange rates and, subject to national accounting rules,[18] report marketable instruments at market value. Moreover, the aggregated MFI balance sheets comprise data from the reporting population as it was on the reporting date. Changes in the reporting population since the previous reporting date will thus affect the balance sheet totals, as will any reclassification of counterparties, when customers of MFIs change their residence status or are reclassified from one sector to another. MFIs may write off or write down certain assets, thereby reducing the reported level. Finally, they may not be able to carry revisions to the latest data as far back as would be desirable and appropriate. For various reasons, therefore, some of which are important in practice, the change in balance sheet

[18] See Chapter 16 for further discussion of this point.

outstandings between two reporting dates may not measure the acquisition of monetary instruments by the money holding sector or the flow of MFI lending. While valuation changes or changes arising from reclassifications may be relevant for economic analysis and should not be neglected, it is the flow or "transactions" statistics which are used to calculate monetary growth and the counterparts to M3. Since it may not be possible to measure transactions directly, transactions may be compiled indirectly, by adjusting the change in balance sheet totals for valuation and classification changes, and regarding what is left as "transactions". This is essentially the approach adopted for euro area monetary statistics at the start of Stage Three. (The ESA 95 financial accounts also require information on "transactions", together with balance sheets and a reconciliation account comprising the types of adjustment described here.)

The November 1994 WGS report to the EMI Council presented a number of issues concerning the derivation of flows from balance sheet outstandings; solutions for the early part of Stage Three, developed in the period to mid-1996, were presented in the July 1996 report which accompanied the implementation package and completed the April 1996 report on the "layered approach". The change in balance sheet levels would be broken down into three components:

- reclassification and other adjustments;
- revaluations;
- financial transactions.

"Reclassification and other adjustments" would comprise changes in balance sheet totals arising from changes in the MFI reporting population, other changes in sector classifications, any changes in the reporting forms themselves (e.g. reclassification of financial instruments), corrections of reporting errors not carried through to earlier data, etc. "Reclassification and other adjustments" corresponds to "other changes in the volume of assets and liabilities" in the ESA 95, except that the ESA 95 category includes write-offs and write-downs of bad debts which the MFI balance sheet statistics treat as "revaluations" (see below). The close correspondence between the MFI statistics and the ESA 95 is important because many of the former contribute to the ESA 95 financial accounts.

The July 1996 report proposed that an allowance for holdings of negotiable monetary instruments by the money holding sector should also be treated as a form of reclassification adjustment. Reporting MFIs often cannot identify holders of money market paper and bank bonds issued by themselves. They can report the amount outstanding of their own issues, and their holdings of such paper issued by other MFIs. MFIs were to report these two items. NCBs would be required to provide the ECB with any further available information on holdings of these monetary instruments in the form of a memorandum item. Estimates of how much of such paper should be included in broad money were to be made centrally by the ECB on the basis of aggregate information supplemented by information from other sources on holdings outside the euro area and holdings by central government, and the euro area aggregates were to be adjusted accordingly. (In the event, this turned out to be an area of serious difficulty; measuring non-resident holdings of such paper became a major issue in 2000-01, leading to the development of new sources of information – see Chapter 34 in Part B. The reason for mentioning the matter here is to explain its treatment in the derivation of flows.)

"Revaluations" would distinguish between exchange rate changes, potentially affecting all items in the balance sheet denominated in foreign currency, and other revaluations, the latter including write-offs and write-downs of non-negotiable assets (as noted above) and changes in market prices of securities held by MFIs. Whether the need for a similar revaluation of MFI liabilities in the form of marketable securities arises or not (other than in consequence of exchange rate changes) would depend on accounting practices in valuing these in the balance sheet; in practice, because monetary liabilities would not in the event exceed two years' original maturity, valuation of MFI liabilities in the form of marketable securities was not a serious issue for the measurement of broad money. Although a distinction would be made throughout the balance sheet between items denominated in euro and assets and liabilities in other currencies, other currency items would be broken down by currency only quarterly. The July 1996 report proposed that the latest end-quarter proportions would be applied in the intervening months. The report proposed that the treatment of write-offs and write-downs should reflect national accounting practices, in which the timing and detailed treatment of bad and doubtful loans varies. The same went for the treatment of changes in market prices of securities held by MFIs where – apart from the exact valuation procedures used by reporting MFIs – applying valuation adjustments to the wide variety of securities held by MFIs would present a serious practical difficulty. As in all these adjustments, the aim was to ensure that the monetary statistics so far as possible reflected the net flow of lending to MFI customers.

The July 1996 report offered the opportunity of recording "transactions" directly, by adding up purchases minus sales of securities by MFIs in the reporting period recorded at transaction values. To the extent that this was possible, "other revaluations" rather than "transactions" would be the amount calculated by residual, being the difference between the change in balance sheet outstandings and estimated flows.

The July 1996 report also proposed priorities for these adjustments in terms of timeliness. The priorities would be "reclassifications and other adjustments" and revaluations due to exchange rate changes (where the report indicated that the ECB might do the work centrally); these adjustments should be performed within the timetable for processing monthly MFI balance sheet data. "Other revaluations", which rarely affect the monetary aggregates themselves, could be made to a longer timetable.

The report proposed that the NCBs or the ECB should make these adjustments on the best information available, whether provided by MFIs or obtained from other sources. In the event, a *"Manual of procedures for the compilation of flows statistics"* formed part of the Guideline ECB/1998/NP27, adopted shortly before the start of Stage Three. The manual noted that NCBs would generally rely on secondary sources for "reclassifications and other adjustments" and "other revaluations". The manual presented first a conceptual section, similar to the July 1996 report but also treating the question of accrued interest. (Accrued interest was to be excluded from the amount of loans/deposits and, if explicit, recorded in "remaining" assets/liabilities, so that, for example, the accrual of interest on a loan account is not recorded as an increase in MFI lending. If accrued interest was intrinsic to the value of a security, it was to be excluded from the transaction value and included in other revaluations.) The second section described adjustments to be made by the ECB, including (as expected) the exchange rate adjustment, using quarterly information as a benchmark. The third section described procedures to be followed by NCBs in collecting information on adjustments and sending it (for all amounts above EUR 50 million) to the ECB. It noted that flows and adjustments are subject to the same double-entry accounting rules as stocks. NCBs were to provide data on adjustments at least back to September 1997 and ideally for earlier periods as well, so that historical monetary data might so far as possible measure flows. The fourth and fifth sections of the manual of procedures gave detailed guidance on the adjustments to the Eurosystem's own data, to data on money market funds, and to general government deposit liabilities.

A related point concerns the ECB's index of adjusted levels, which the ECB began to publish some time after the start of Stage Three. As explained earlier, MFI balance sheet levels and stocks of monetary aggregates and counterparts are published by the ECB without adjustment for reclassifications, revaluations, etc. Changes and growth rates in the monetary aggregates and (where appropriate) counterparts are calculated from accumulated flows. The ECB could choose to provide a series of adjusted stocks, compiled by adding flows in money terms to some base amount. Since however such adjusted stocks would differ from reported amounts, possibly by an increasing margin, it might be confusing to do so. Instead the ECB decided to publish, for monetary aggregates and certain counterparts, an index of adjusted levels (December 1998 =100), percentage changes in which correspond to the published growth rates. The index is also published in seasonally adjusted form. This is a presentational matter: the index could be used to calculate the adjusted stocks which the ECB prefers not to publish in order to avoid confusion. However, the ECB does publish seasonally adjusted levels which, by their nature, fluctuate around the reported levels without diverging from them.

Chapter 7

The MFI balance sheet – instruments, maturities, residence and sector of counterparties

The substance of what MFIs report. Original and residual maturity. The role of maturity in the MFI balance sheet statistics. Residence in the new circumstances of Economic and Monetary Union. Euro area-wide sectorisation. Use of the MFI balance sheet to calculate the base for minimum reserves.

Once the MFI sector has been defined and the reporting architecture determined, the next question is precisely what the institutions in the MFI sector should report. The reporting scheme developed during the preparation phase and implemented from the start of Stage Three recognised that NCBs, credit institutions and MMFs, though all part of the MFI sector, conduct different types of business. While remaining fully consistent across the sector, the information provided by these three groups differs, reflecting the nature of their business. The information required from "tail" institutions differs again, and "tail" credit institutions, which must hold minimum reserves, provide different information from other "tail" institutions, which do not.

The first aim was to design a reporting scheme that would yield narrow, intermediate and broad measures of money stock for the euro area, and information on the counterparts to broad money, especially MFI lending in all forms to residents of the euro area. As noted elsewhere, the system had to be designed in ignorance of how these aggregates would be defined in Stage Three: assumptions had to be based on existing national practice and the development of M3H, while providing enough instrument detail to offer a degree of choice. Member States would want to use the information as an ingredient in compiling financial accounts on a national basis, which would be a legal requirement under the ESA 95, as well as in providing contributions to euro area aggregates. It would clearly be necessary to have information to net out inter-MFI business, both at national and at euro area level. Although M3H is an all-currency measure of broad money, it seemed prudent to distinguish between items denominated in euro and items denominated in all other currencies throughout the balance sheet. This was entirely consistent with the requirements of users as stated in the autumn 1992 consultation for main asset and liability classes broken down by type, maturity, sector and residence of the counterpart, and currency.

The data were to be available mostly as end-month stocks with a timeliness of three to five weeks.

Asset and liability classes at the start of Stage Three

In the early part of the preparatory phase, much effort had been devoted to examining the instrument content of national banking balance sheets. This work, the "building blocks" exercise, mostly conducted by the MBSTF in 1992-93 and initially performed to explore the possibilities for aggregation, provided much valuable information for later harmonisation exercises.

In the implementation package, MFI holdings of assets were broken down into cash; loans; securities other than shares; money market paper; shares and other equities; fixed assets; and remaining assets (including derivatives positions with a positive market value, and accrued interest receivable). MFI liabilities were broken down into currency in circulation; deposit liabilities; shares/units issued by money market funds; debt securities issued; money market paper issued; capital and reserves; and remaining liabilities (including derivatives positions with a negative market value, and accrued interest payable).

These asset and liability categories, which were largely uncontentious, were set out in the implementation package (July 1996) and subsequently listed in Annex I, Part 1 to the MFI balance sheet Regulation (ECB/1998/16) and closely defined in Annex I, Part 3. Detailed definitions were important, because examination of national banking statistics in the building blocks exercise had revealed many differences of detail in apparently similar balance sheet categories.

Maturity breakdowns in the MFI balance sheet at the start of Stage Three

In contrast to instrument classes, maturity breakdowns proved very difficult in the preparation phase. The reasons were differing views on the relative relevance of original (or initial) and residual maturity, varying maturity cut-offs in existing national statistics, all reflecting different national financial structures and accordingly different current practices, and the difficulty of applying maturity cut-offs to many savings and other accounts.

No doubt because of different traditions and national conditions, from the start users found it difficult to express a clear preference for residual or original maturity for purposes of monetary policy analysis. At the time of the Economic Unit report on harmonised monetary aggregates (May 1991), central bank economists observed that the residual maturity of an asset is of interest when capital markets are competitive and integrated, when non-banks are sophisticated managers of their asset portfolio, when fiscal treatment of different assets is uniform, and when transaction costs are low, with a high substitutability between assets of the same residual maturity, whatever their initial maturity may have been. But it was clear that these conditions did not apply in many Member States at the time. Information on residual maturity would in any case become available by 1998 under the Bank Accounts Directive (86/635/EEC), although the Directive would require only annual data on liabilities with breakdowns at three months, one year and five years, while instrument categories in banks' financial statements (the subject of the Directive) would often not correspond to those in the statistical balance sheet. The Economic Unit had noted that liquidity does not necessarily increase as maturity shortens, since bonds may be most actively traded when young. The Committee of Governors had anticipated difficulties in this area by requesting in July 1991 periodic reports on the maturity structure of EU banks' balance sheets, to help assess the need for common maturity bands.

A further consultation in early 1996 was summarised by the WGS (in the April 1996 report to the EMI Council) as follows: *"The [MPSC] emphasised the need for flexibility in view of the definition of monetary aggregates and of a potential minimum reserves system as well as the continuity of the statistical systems as far as possible in the MU. Whilst [the MPSC] noted the weakening relationship between maturity and moneyness* *of deposits, members put different weights on the aspects of flexibility, usefulness, costs and continuity. The [EMI's MESD] also emphasised the importance of flexibility with regard to harmonised and sufficiently detailed maturity classes, in the sense of keeping options open for the definition of key monetary aggregates and of liabilities subject to minimum reserves.*"

Given these user views, and recalling that the Bank Accounts Directive would provide at least some information on residual maturity, the WGS proposed limited initial or original maturity breakdowns. Those at one and two years on the liabilities side of the balance sheet were chosen with monetary aggregates and possible minimum reserves in mind. The report also noted that these maturity breakdowns might provide a partial substitute for what would otherwise be difficult judgements about the comparability of financial instruments, a conclusion which statisticians had reached following work to harmonise balance sheet items. By this they meant that original maturity might indicate in an approximate way the intentions of the deposit holder in placing the funds, and do so better than the many generic account descriptions in use or other easily reported characteristics of accounts with MFIs. ("Savings account", for example, was found to apply to accounts with widely different terms, conditions and presumably use in EU Member States.) It was also clear that using original maturity would avoid the discontinuities which arise when, with the lapse of time, instruments pass from one residual maturity band to another. The conclusion in favour of original maturity was reached only after prolonged debate in the WGS itself and with users, in which some central banks argued strongly that only residual maturity was relevant to liquidity and thus to the compilation of monetary aggregates. When this issue had been resolved, there was further difficult discussion of what maturity bands should actually be required: choosing the minimum acceptable maturity breakdowns gave rise to further debate and, in early 1996, to discussion between NCBs and selected commercial banks in order to establish how costly it really was to report by original maturity.

The emphasis was on the maturity analysis of MFIs' business with domestic or other euro area counterparties in what were expected to be the money holding sectors. The implementation package provided only the minimal maturity information on inter-MFI business needed to enable information on money holdings to be calculated by residual, and none at all on MFI business with central government and with counterparties resident outside the euro area (though a limited requirement was added in 1998 to meet minimum reserve purposes). Nor did the WGS propose any maturity breakdown of money market paper issued by MFIs, on either the asset or liability side of the balance sheet, on the grounds that such paper was usually shorter than a year, and always held and traded with residual rather than initial maturity in mind. Similarly, no maturity breakdown was proposed for repos or for shares/units issued by MMFs. In order to enable the maturity structure of MFI lending to be monitored, the WGS proposed quarterly maturity breakdowns of loans to non-MFIs at one year and five years, and of holdings of securities issues by non-MFIs at one year. The maturity breakdowns in Regulation ECB/1998/16 and therefore in effect at the start of Stage Three are set out in detail in Annex 1 to this chapter.

Residence and sectorisation in euro area money and banking statistics

Statistics for the ECB's monetary policy purposes relate to the euro area as a whole. So the key distinction, as far as residence is concerned, is between residence in the euro area and residence outside the euro area. However, euro area residency was not a concept with which reporting agents would be familiar. There therefore seemed to be an advantage in retaining domestic residency, and introducing other euro area residency as a sub-set of the existing non-resident category. This approach also had the important advantage of permitting national data to be compiled from the MFI balance sheet. Since economic policy other than monetary policy remains a national responsibility, national statistics continue to be needed for many purposes; the ESA 95, which is legally binding in all EU Member States, requires economic and financial accounts on a national basis; and Member States participating in the euro area remain members of international organisations and continue to provide national statistics accordingly.

The likely need for statistics on both a euro area and a national basis was recognised (though not developed) in the September 1993 report from the WGS to the Committee of Governors. The November 1994 report to the EMI Council recommended that the national basis for residency should be retained, and that residency should be defined in line with the SNA 93, the IMF Balance of Payments Manual, and the ESA 95 (which was still in preparation). This recommendation implied a three-fold breakdown of business in the MFI balance sheet statistics into (a) domestic residents, (b) residents of other euro area countries, and (c) residents of the rest of the world. Consistency throughout with European and international standards, in addition to its other merits, avoided any risk that data to different specifications would be needed for the ECB and for other purposes.

The November 1994 report noted that Member States already very largely complied with the IMF Balance of Payments Manual (5th edition) in determining residence, with some minor departures (e.g. in treatment of diplomats) which would be corrected. More important was the treatment of foreign branches and subsidiaries of domestic banks, which some Member States classified as part of the domestic banking sector. The report made clear that such entities, where they were separate institutional units maintaining an independent accounting function (always the case for subsidiaries, usually but not invariably for branches), were to be treated as resident in the country in which they were located. Statistical reporting would thus be on a “host” country and not a “home” country basis.[19]

The November 1994 report made other related proposals. MFIs would be required to consolidate for statistical purposes (i.e. report as a single entity) the business of all branches located in a single territory, together with the business of the head office if located in the same territory. They might also (but need not) consolidate the business of MFIs in the same group located in the same territory (parent and subsidiaries, or subsidiaries alone if the parent bank is located abroad). MFIs must not however consolidate across national boundaries, nor consolidate the business of entities which are not MFIs, since residence and sectoral boundaries would otherwise be crossed. On sectorisation, the November 1994 report proposed that the ESA 95 should be the standard for sector classification in money and banking statistics; proposals covering the fine detail of the sectoral and sub-sectoral breakdowns should await finalisation of the ESA 95.

[19] The host country approach covers the business of banking offices located in the country concerned, including the local branches of banks with their head offices abroad. The home country approach covers the business of banking institutions incorporated in the country concerned, including the business of their branches abroad.

A more radical proposal in the report was that the same sectors should be identified both within the domestic economy and elsewhere in the euro area (so that, for example, an MFI would break down its cross-border lending within the euro area in the same way as its domestic lending). Like the MUMS/non-MUMS breakdown of cross-border transactions and positions, this was a distinction which MFIs had not previously had to make. In the more limited sectoral breakdown required of their business with the rest of the world outside the euro area (banks; general government; other sectors), MFIs should use the host country classification with the consequence that, for example, "banks" might not mean the same as "MFIs" in euro area business. The November 1994 report proposed no breakdown of MFI business according to branches of activity of the customer – manufacturing, construction, retail trade, etc. – in which users had expressed no interest. The only breakdown was to be in terms of economic sectors.

Detailed cross-border sectorisation within the euro area (where, for example, an MFI in country A would have to decide whether a customer in country B was a non-monetary financial corporation or a non-financial corporation) would present reporting MFIs and national compilers with many difficulties in practice. Previously only cross-border business with banks and government had been separately identified. The WGS accordingly prepared a sector manual in April 1998.[20] This publication provided a guide to sectoral classification in all euro area Member States, entirely within the ESA 95 framework, with illustrative examples of correct statistical treatment though not exhaustive lists, which were considered impractical.

A related matter concerns borderline cases in the delimitation of the euro area itself (e.g. the status of Helgoland, the Canary Islands, Monaco, Madeira, San Marino, and the Vatican City for statistical purposes). The sector manual provided guidance on the classification of such borderline cases, and of international and Community institutions and other bodies. (The annex to Chapter 12 explains the particular case of EU institutions and other bodies.)

Use of the MFI balance sheet for minimum reserves purposes

Article 19.1 of the Statute says that the ECB may require credit institutions to hold minimum reserves. The EU Council must first enact complementary legislation to establish the reserve base, fix maximum rates and define appropriate sanctions (Article 19.2). This complementary legislation took the form of Council Regulation (EC) No 2531/98, one of three pieces of legislation relating to the ECB adopted by the Council in November 1998 (see Chapter 18).

This is not the place to describe the discussions about the form which such a reserve requirement might take should the ECB Governing Council decide in favour of a reserve requirement (as they did). There were essentially two key points of relevance to statistical preparations. Although, as seen in the chapter on the definition of MFIs, the money creating sector was wider than credit institutions as defined in Community legislation, and there might be a wish to make the reserve base for minimum reserves purposes coincide so far as possible with the (unknown) definition of broad money, it seemed that "credit institutions" for the purposes of Article 19.1 would be interpreted by the courts to mean credit institutions as defined in Community law, i.e. in the Banking

[20] Revised in November 1999.

Coordination Directives. It would not be possible to impose reserve requirements on all MFIs without running the risk of a successful legal challenge. The second key point was the decision by the EMI in December 1995 that money and banking statistics would be used to calculate reserve requirements should the ECB decide to introduce them.

Accordingly there would not be a separate reporting scheme for minimum reserve purposes. This ruled out, for example, a reserve base consisting of the daily or weekly average of relevant liabilities over the course of the month, since the EMI had already accepted that banking balance sheets would be reported at end-month only. Less clear was how far the detailed design of the MFI balance sheet should accommodate possible features of a minimum reserve system, given that detailed reporting requirements would have to be published some two years before the ECB's Governing Council could decide the form of a minimum reserve system, or indeed whether there was to be one; and, once the statistical reporting requirements had been published in July 1996, how far if at all they should be modified subsequently for minimum reserve purposes once the decision to have minimum reserves had been taken. This was one aspect of the choice between leaving the ECB with sufficient flexibility and minimising the burden of preparation for reporting institutions and NCBs. (In practice, detailed plans concerning a possible minimum reserve system were developed in the course of preparing the general documentation on ESCB monetary policy instruments and procedures in autumn 1996, though too late for the implementation package. The WGS had the opportunity to comment on them and to consider their implications for statistics at that stage.)

In reporting interbank positions, the planned statistical needs required no distinction to be made within the MFI sector. The sector was viewed, statistically, as a whole. If minimum reserves were imposed on credit institutions alone, however, it could be assumed that credit institutions would have to report positions with other credit institutions in the euro area separately, to enable liabilities to other institutions subject to minimum reserves to be deducted from the reserve base. Regulation No 2531/98 does indeed provide for such a deduction from the reserve base. Thus a distinction between positions with "credit institutions" and positions with "other MFIs" was introduced into the proposed MFI balance sheet return shortly before the July 1996 implementation package was released. Explaining this feature, the implementation package report stated: *"Provision has been made for the contingency that any system of compulsory reserves might not be applied to the whole MFI sector. Provision for all forms which a requirement might take would add considerably to the complexity of the balance sheet … If necessary, any further (or different) requirement will be specified when the ECB Council makes the relevant decision* [on the form of a reserve requirement, if any] *in 1998.*" The WGS recognised that in practice an amendment to the MFI balance sheet in 1998 would be difficult.

In the event very late, if minor, changes to the reporting scheme were made. Since the monthly MFI balance sheet had been designed with the compilation of monetary statistics principally in mind, and MFI liabilities to central government and to entities resident outside the euro area were most unlikely to form part of broad money, the monthly MFI balance sheet return presented in the implementation package required only summary data on these liabilities, without currency or maturity breakdown (though the quarterly requirement included a currency breakdown of liabilities to the rest of the world). In the event, and although such liabilities were indeed not part of broad money (M3), the ECB decided to include in the reserve base credit institutions' liabilities to central government with an original maturity of up to two years and their liabilities denominated in euro (but not in foreign currencies) to non-residents of the euro area, also with an original maturity of up to two years. Reporting the relevant breakdowns remained voluntary until end-1999, because it was too late to make them a legal requirement for the start of Stage Three. Credit institutions were required to hold minimum reserves against all liabilities to central government and to non-residents of the euro area until they reported these breakdowns, when they could hold reserves against the lesser amounts only.

The treatment in the context of the reserve base of credit institutions' interbank liabilities in the form of negotiable paper (money market paper and short-term bank bonds with an original maturity of up to two years) proved more intractable than the treatment of interbank deposits. As noted above, Council Regulation (EC) No 2531/98 (and Regulation ECB/1998/15, the ECB Regulation concerning minimum reserves in force at the start of Stage Three) permits credit institutions to deduct from their reserve base any liabilities owed to other institutions subject to the ECB's minimum reserve regime. The difficulty for a reporting institution is to know how much of such paper is held by credit institutions in the euro area. If a reporting institution could identify such holdings of its own paper, it was to report them under Regulation ECB/1998/16, and set off the amount from its reserve base. If a reporting credit institution could not identify such holdings (as is normally the case), it was allowed to multiply the amounts which it had issued (money market paper and short-term debt securities separately) by “macro ratios” calculated by the ECB from aggregated statistics of issues and holdings reported by credit institutions across the euro area. These ratios were set for the beginning of Stage Three on the basis of the provisional current and back data available in autumn 1998, at 10% for both money market paper and short-term debt securities.

The use of MFI balance sheet statistics for minimum reserves purposes had another consequence for statistical preparations. Successive drafts of the (EU) Council Regulation concerning ECB statistics (another piece of Community legislation adopted in November 1998 as No 2533/98 – see Chapter 18 for an extended discussion) made it clear that statistical information provided to meet the ECB's statistical requirement might be used for administrative purposes, where the identity of individual economic entities would be relevant - as is the case for balance sheet data used to calculate an institution's reserve base. By contrast, Council Regulation (EC) No 322/97, on Community statistics, restricts the use of data obtained for the production of Community statistics to statistical purposes only, i.e. to compile aggregates in which individual statistical units are not identifiable (Article 15). Although common practice in central banks, where the same reported data are often used to compile statistical aggregates and for prudential supervision, minimum reserves and other policy/operational purposes as explained in Chapter 18, this provision in the draft complementary legislation was challenged, but successfully defended, at all stages of discussion, including at the committee stage in the European Parliament and in the Council working party.

A related question concerns statistics about the minimum reserve system, as opposed to data used to calculate the reserve base of individual credit institutions. The MFI balance sheet statistics (relating to credit institutions only) can be used to calculate the overall components of the reserve base, but the rest of the information published since the start of Economic and Monetary Union in Table 1.4 of the ECB's Monthly Bulletin – namely required reserves, actual reserves, excess reserves, and deficiencies – requires balance sheet data relating to individual credit institutions which only NCBs possess.

Annex 1

Breakdowns for the purposes of the aggregated balance sheet of the MFI sector: instrument/maturity categories, counterparties and currencies

*(‘Monthly data’ breakdowns are indicated in bold with a *)*

INSTRUMENT AND MATURITY CATEGORIES

Assets		Liabilities	
1.	Cash *	8.	Currency in circulation
2.	Loans *	9.	Deposits
	up to 1 year [21]	9.1.	Overnight deposits [25] *
	over 1 year and up to 5 years [21]	9.2.	Deposits with agreed maturity *
	over 5 years [21]		up to 1 year *
3.	Securities other than shares [22][23] *		over 1 year and up to 2 years *
	up to 1 year [22] *		over 2 years [26] *
	over 1 year and up to 2 years [22] *	9.3.	Deposits redeemable at notice *
	over 2 years [22] *		up to 3 months [27] *
4.	Money market paper [24] *		over 3 months *
5.	Shares and other equity *		o/w over 2 years [31] *
6.	Fixed assets *	9.4.	Repurchase agreements *
7.	Remaining assets *	10.	Money market fund shares/units *
		11.	Debt securities issued [23] *
			up to 1 year *
			over 1 year and up to 2 years *
			over 2 years *
		12.	Money market paper [28] *
		13.	Capital and reserves *
		14.	Remaining liabilities *

Source: Regulation ECB/1998/16, Annex I, Part 2

COUNTERPARTIES

Assets	Liabilities
A. Domestic residents *	A. Domestic residents *
Monetary financial institutions (MFIs) *	MFIs *
Non-MFIs *	Of which: credit institutions *
General government *	Non-MFIs *
central government	General government *
State government	central government *
local government	State government
social security funds	local government
Other residents *	social security funds
other financial intermediaries (S.123)	Other residents *
insurance corporations and	other financial intermediaries (S.123)
pension funds (S.125)	
non-financial corporations (S.11)	insurance corporations and
households, etc. (S.14 + S.15) [29]	pension funds (S.125)
Liabilities	non-financial corporations (S.11)
	households, etc. (S.14 + S.15) [29]
B. Residents of the other MUMS [30] *	B. Residents of the other MUMS [30] *
MFIs *	MFIs *
Non-MFIs *	Of which: credit institutions *
General government *	Non-MFIs *
central government	General government *
State government	central government *
local government	State government
social security funds	local government
Other residents *	social security funds
other financial intermediaries (S.123)	Other residents *
insurance corporations and	other financial intermediaries (S.123)
pension funds (S.125)	insurance corporations and
non-financial corporations (S.11)	pension funds (S.125)
households, etc. (S.14 + S.15) [29]	non-financial corporations (S.11)
	households, etc. (S.14 + S.15) [29]
C. Residents of the rest of the world *	C. Residents of the rest of the world *
Banks	Banks
Non-banks	Non-banks
general government	general government
other residents	other residents
D. Not allocated	D. Not allocated

CURRENCIES

e	euro	euro denomination (including national currency denominations of the participating Member States prior to the completion of changeover to the euro)
x	Non-MU currencies	other currencies (other EU currencies, USD, JPY, CHF, remaining)

Notes

[21] Maturity breakdown applicable only for loans to non-MFIs.

[22] Monthly data requirement relates only to holdings of securities issued by MFIs located in the euro area. As quarterly data, holdings of securities issued by non-MFIs in the euro area are split into ‘up to 1 year’ and ‘over 1 year’.

[23] Excluding money market paper.

[24] Defined as holdings of money market paper issued by MFIs. Here, money market paper includes shares/units issued by MMFs. Holdings of marketable instruments which may have the same characteristics as money market paper but which are issued by non-MFIs should be reported as ‘securities other than shares’.

[25] Including suspense balances representing amounts stored on prepaid cards issued in the name of MFIs.

[26] Including administratively regulated deposits.

[27] Including non-transferable sight deposits.

[28] Defined as money market paper issued by MFIs.

[29] Households (S.14) and non-profit institutions serving households (S.15).

[30] Monetary Union Member States, meaning the territory of the participating Member States.

[31] The reporting of the item ‘deposits redeemable at notice over 2 years’ is voluntary until further notice.

Annex 2

Definitions of euro area monetary aggregates [32]

	M1	M2	M3
Currency in circulation	X	X	X
Overnight deposits	X	X	X
Deposits with agreed maturity up to 2 years		X	X
Deposits redeemable at notice up to 3 months		X	X
Repurchase agreements			X
Money market fund (MMF) shares/units and money market paper			X
Debt securities up to 2 years			X

[32] Liabilities of the money-issuing sector and central government liabilities with a monetary character held by the money-holding sector.

Source: ECB Monthly Bulletin, February 1999, p.35

Statistics on financial markets and non-monetary financial intermediaries

Chapter 8

Interest rates

Different aspects to the work. Little effort necessary for wholesale market rates. By contrast, even the agreed short-term approach to "retail" interest rates – rates paid and charged by MFIs in business with personal and most business customers – presented difficulties. Development of long-term interest rates on government debt for use in assessing convergence.

Purpose and general nature of interest rate statistics

Development work on interest rate statistics fell into two distinct parts. It was clear that the ECB would need interest rate data to see how monetary policy decisions affected the interest rates paid and received by economic agents in the euro area. This need in turn had two aspects: interest rates or yields on market instruments, which would be readily available from market sources in markets which already were, or presumably would quickly become, integrated; and rates charged or paid by MFIs to their personal or smaller business customers, in markets which might remain fragmented for some years. The main statistical task was to develop the latter ("retail" interest rates). Secondly, the Treaty makes yields on long-term government bonds or comparable securities one of the criteria for assessing the readiness of Member States to proceed to Economic and Monetary Union. The Commission is responsible under the Treaty for providing the data needed to assess convergence, but much of the expertise on securities markets lies in central banks. The Commission therefore invited the EMI to develop a convergence measure in this field. Although separate from other development work on interest rates, the work on long-term interest rates for convergence purposes is described in this chapter.

Wholesale market and retail interest rates

Wholesale rates means rates or yields on money market and capital market instruments. In the autumn 1992 consultation, users requested daily information, available promptly, on an unspecified range of rates.

As noted in the September 1993 WGS report to the Committee of Governors, Member States already had data of this kind, though with some differences reflecting institutional circumstances and features of national markets, especially for capital market rates where the November 1994 WGS report included some harmonisation proposals. Differences were identified in more detail in a stocktaking of national interest rate statistics (January 1996 WGS report). Given, however, that "wholesale" markets were already closely integrated, with largely standard data available promptly, and were likely to draw more closely together in Stage Three, the implementation package (July 1996) concluded that: "*[Money market rates] present no data problems; …[they] will tend to be the same* *throughout the area on instruments of the same term and with other similar characteristics, and will probably be available already. There may nevertheless be some need to standardise methods of compiling interest rates… Representative data [on the spread between yields on government and corporate debt at various maturities] compiled in standard form covering the single currency area will be required. Representative price-earning ratios will also be required … These raise compilation issues rather than any new reporting requirements".*

By contrast, it was quickly apparent from the wide range of retail banking products in the EU, and from the experience of some Member States in trying to develop harmonised statistics for national purposes, that harmonisation of retail interest rates across the euro area would be difficult and time-consuming and was probably not immediately necessary. Using existing data would probably suffice for a time.

The original user requirements for interest rate statistics (WGS report to the Committee of Governors, December 1992) specified monthly data on banks' lending and deposit rates. Bank interest rates were "essential"; the report proposed that *"the comparability of interest rate statistics across Member States and the role of interest rates paid and received by non-banks should be assessed and the available statistics should be examined in the light of this assessment".* The September 1993 WGS report accordingly assessed the availability of interest rate data, concluding *"The availability of 'essential'… central bank and domestic money market interest rates is comprehensive with only minor work required to meet requirements in full. There are, however, significant gaps in the availability of other interest rates… The gaps may be attributable at least in part to the lack of relevance of certain concepts applied by users".* Few Member States had retail interest rate data available with adequate frequency, structure, timeliness and coverage. The November 1994 WGS report proposed steps to improve the quality and timeliness of national data. In view, however, of the variety of retail banking products and the probable continued fragmentation of retail banking markets, the January 1996 WGS report to the EMI Council proposed a different, complementary, approach: *"Where it is not possible to identify common interest rates across countries at present, for example in relation to retail banking business, key interest rates must be identified at the national level following national definitions".* The implementation package (July 1996) proposed the following: *"The requirement in respect of [rates charged and paid by MFIs … other than on money market or closely related items] is data on interest on a few instruments which are, so far as possible, common to all participant countries. For the purpose of illustration these are (in each case relating to accounts in euro): (i) a representative deposit rate paid to small businesses and households; (ii) representative loan rates on new credits, (a) to business customers, (b) consumer credits, (c) mortgage loans. Where loans are for a fixed term, it will be important to know whether they are on fixed or variable interest rate terms, and if variable, what they vary with. Occasional surveys may suffice."* The choice of these few key instruments was helped by the stocktaking of existing national data in the January 1996 report. The report noted the difficulty of fitting the available information into a single presentation, and observed that national reporting systems took into account different aspects of banking activity (e.g. size of the account, provision of collateral as security for loans) in recording interest rates. Most countries had comparable information on interest rates on lending instruments, though maturity data were largely absent. Comparability on the deposits side was complicated by the large number of banking products available and inconsistent use of terms such as "savings account".

Member States also followed different practices in choosing the coverage of banks providing interest rate data, in the compilation of average or representative rates, and in the treatment of commission, fees, etc. Most Member States collected data on new (rather than existing) business.

In the preparatory phase for Stage Three, the WGS identified ten interest rates – deposit rates and lending rates – with sufficient common features for sensible aggregation across the euro area. After tests of the coverage and plausibility of the results in autumn 1998, aggregate euro area rates (with the national contributions weighted by shares in relevant MFI balance sheet totals) were published from the start of Economic and Monetary Union based on data sent to the ECB by NCBs within 18 days of the end of the reference month, as required by Guideline ECB/1998/NP27. They came with a warning that the national components were not harmonised and that attention should be paid to changes in the aggregates rather than to their levels, which might reflect different features in the underlying instruments. This was not too serious a drawback given that the main purpose was to follow changes in Eurosystem rates through to interest rates paid and charged by MFIs. The STC decided that data before December 1995 were not of publishable quality and should be kept within the ESCB. The ECB also collected data on key national rates, with no attempt at harmonisation or compilation of euro area aggregates. These national data were also specified from the start of Stage Three in ECB/1998/NP27 as *"those interest rates that are considered to be the main indicators of retail financial market conditions in the Member State concerned, as usually monitored by the users"*. Meanwhile, work began soon after the start of Stage Three to develop a more comprehensive set of harmonised MFI interest rate data covering the euro area (see Chapter 24 in Part B concerning the preparation of Regulation ECB/2001/18).

Long-term interest rates as an indicator of convergence

The readiness of Member States to proceed to Economic and Monetary Union is assessed in reports by the Commission and the EMI (the ECB in Stage Three) on the basis of various convergence criteria listed in Article 121(1) of the Treaty. With the exception of exchange rate stability, the criteria have a large statistical content and required much preparatory work, led and carried out by the Commission in accordance with Article 5 of the Protocol on the convergence criteria attached to the Treaty (*"The statistical data to be used for the application of this Protocol shall be provided by the Commission."*). In one case, however, namely that of long-term interest rates, the Commission (Eurostat) asked the EMI to undertake the preparatory work, since expertise in interest rates and financial markets in general tends to be located in central banks.

Article 121(1) reads as follows: *"These reports* [the assessments of convergence by the Commission and the EMI referred to in para. 1 of Article 121(1)] … *shall also examine the achievement of a high degree of sustainable convergence … achieved by the Member State and of its participation in the exchange-rate mechanism … being reflected in the long-term interest rate levels"*.

Article 4 of the Protocol explains further what is meant:

"The criterion on the convergence of interest rates referred to in the fourth indent of Article 109j(1) [now Article 121(1)] *of this Treaty shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal*

long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions."

Article 4 leaves open how interest rates are to be measured (and at what frequency), what is meant by long term, and precisely whose debt should be measured; or indeed how differences in national definitions should be dealt with. Clearly a high degree of harmonisation would be needed, since the data relating to any Member State could be of critical importance, not only in assessing the readiness of that Member State to proceed to Economic and Monetary Union, but also in assessing other countries if that Member State happened to be among the best performers in terms of price stability.

In spring 1994 the WGS introduced a questionnaire to establish what Member States considered at present to be representative long-term interest rates. All except Germany (which used public sector bonds) chose debt of the central government, and all except Italy chose rates gross of tax. Most Member States considered "long term" to mean around ten years' residual maturity (the exceptions being Greece (five years), the United Kingdom (20 years), and Luxembourg (all maturities)). There was a wider range of compilation methods – some took the yield on a benchmark bond, some an average of yields on bonds with around ten years to maturity, while the United Kingdom took the (20-year) maturity point on an estimated yield curve.

When presented with this information in a consultation (May 1994), EMI economists, the MPSC and the FEPSC found no difficulty in stating consistent preferences: central government debt, a yield gross of tax, on bonds of around ten years' residual maturity. The yield curve approach, avoiding the problem of maturity drift with the passage of time, was seen as theoretically attractive, but not recommended for this purpose because of the need to agree on a method and the risk that the results might in the event be contested. No clear preference was expressed between taking the yields of one (or a very few) benchmark bonds with around ten years to maturity, or averaging yields on a sample of bonds. A possible problem with Luxembourg (a very small stock of government debt, none of it with ten years to run, and a good prospect of having one of the best performances in terms of price stability and so of being chosen as a comparator) was identified.[33]

Following further work on the choice of bonds, the WGS invited a group of central bank mathematicians in April 1995 to consider some remaining issues concerning the calculation of yields. Either the benchmark bond approach or the average of a sample was thought acceptable, provided maturity drift was kept small (i.e. bonds were promptly replaced in the calculation as their residual maturity fell below ten years) and the bonds whose yields contributed to the calculation were liquid (i.e. actively traded). In this regard, "special feature" bonds had already been rejected for this purpose. The group sought without success a treatment for bonds whose current yields were very different from the coupon, and could only conclude that such bonds might anyway fail the important liquidity criterion. For calculating yield, the mathematicians chose a formula recommended by the International Securities Market Association (ISMA formula 6.3). On the question of combining yields on several bonds to give a single figure, the group considered a portfolio approach (where the cash flows on the individual

[33] Luxembourg subsequently issued some ten-year debt.

bonds are combined and discounted together at the same rate) and simple or weighted averaging. A simple average of bond yields was chosen in the end.

Compilation of long-term government bond yields on the agreed basis started in late summer 1995. Central banks were asked to provide daily data from July 1993 at least, and preferably from 1985 in order to provide a ten-year series.

Annex

Retail bank interest rates

	Deposit interest rates					Lending interest rates			
Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
	Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
1	2	3	4	5	6	7	8	9	10

The footnote to the table read:

These euro area retail bank interest rates should be used with caution and for statistical purposes only, primarily for analysing their development over time rather than their level. They are calculated as the weighted average of national interest rates provided by the national central banks. The national rates represent those rates that are currently available from national sources and which are judged to fit the standard categories. These national rates have been aggregated to derive information for the euro area, in some cases relying on proxies and working assumptions due to the heterogeneity observed in the national financial instruments across MU Member States. Furthermore, the national interest rates are not harmonised in terms of their coverage (new business and/or outstanding amounts), the nature of the data (nominal or effective) or the compilation method. The country weights for the euro area retail bank interest rates are derived from the monthly MFI balance sheet statistics or close proxies. The weights reflect the country-specific proportions of the relevant instruments within the euro area, measured as outstanding amounts. The weights are adjusted monthly, so that interest rates and weights always refer to the same month.

Source: ECB Monthly Bulletin, January 1999, Table 2.8

Chapter 9

Securities issues and non-monetary financial intermediaries

More areas adopting a short-term approach using existing sources as far as possible. Link with banking and monetary developments. Emphasis on debt securities and (among non-monetary financial intermediaries) on investment funds.

Purpose and general nature of statistics on securities issues and non-monetary financial intermediaries

Securities are the largest class of financial instrument in the EU. Some securities form part of broad money, and a much wider range of securities are to some degree substitutes for money in asset portfolios, or are alternatives to bank lending as a source of finance. Similarly, other (non-monetary) financial intermediaries compete to varying degrees with MFIs; statistics on their business help the analysis of banking and monetary developments and contribute to the picture of financial activity in the euro area.

Securities issues

In the 1992 enquiry into requirements for Stage Three, users stated a need for monthly data on issues, redemptions and outstanding stocks of securities on domestic markets, and by resident entities in foreign markets, broken down by type of security and by sector of the issuer and maturity of the paper.

All Member States had statistics of this kind, though sometimes data on issues abroad by domestic residents were incomplete and it proved difficult to make a clear distinction between domestic and foreign markets. Practices in valuing outstanding securities varied (and in the event, in the case of equities, prevented publication of data until 2002). A requirement not initially stated for data on euro-denominated issues by non-residents of the euro area made calls on the international bond market statistics compiled by the Bank for International Settlements, originally quarterly but increased to monthly frequency to meet the ECB's need. Compiling euro area aggregates does not raise consolidation problems in this area, since euro area issues or outstanding amounts are the sum of issues by residents of euro area Member States. Thus the WGS concluded in the preparation phase that securities issues statistics for the euro area in the early part of Stage Three could, with some amendments listed in the November 1994 report to the EMI Council, be compiled from existing sources and did not necessitate a new reporting requirement. In this respect securities issues were like interest rates paid and charged by MFIs, and the subject of a short-term approach. This conclusion was confirmed in a further survey of available data reported to the EMI Council in the January 1996 WGS report. The implementation package (July 1996) accordingly listed the data requirements in this area, noting that *"In many Member States, existing data sources are likely to be adequate"*. The April 1997 monitoring report from the WGS to the EMI Council noted an early intention to start upgrading the EMI databank in this area, resources and progress with other work permitting. In the event, resources were not available for this work until late 1998, when a pilot exercise involving five Member States and the BIS was undertaken towards the end of the year. Aggregated data covering securities issues, redemptions and outstandings in the euro area (and BIS data on issues denominated in euro by non-residents of the euro area) were first published in the November 1999 Monthly Bulletin. Subsequent improvements to these data are described in Part B.

The obligation of NCBs to report securities issues statistics (within five weeks of the end of the reference period) was formalised with the adoption of Guideline ECB/2000/13 (Annex XI) concerning money and banking statistics in November 2000 (Chapter 25 in Part B).

Non-monetary financial intermediaries

In the December 1992 statement of requirements, users sought monthly balance sheet and flows data on investment companies.

Investment companies, and mutual institutions performing a similar function, are only one of several categories of "other" (non-monetary) financial intermediaries, which in turn form part of the sector "financial corporations" in the ESA 95. The sector "financial corporations" (S 12) comprises monetary financial institutions (S 121 – central banks; S 122 – other monetary financial institutions), other financial intermediaries except insurance corporations and pension funds (S 123),[34] financial auxiliaries (S 124), and insurance corporations and pension funds (S 125).

MFIs are financial intermediaries which meet the EMI/ECB definition formulated in 1993 and amended in 1994. As described in Chapter 5, these were provisionally listed in autumn 1997, with a "final" list published in April 1998. Financial auxiliaries (S 124) are not financial intermediaries but provide ancillary services; the ECB has been content to use national data produced under the ESA 95, without seeking to develop further data sources on financial auxiliaries.

The implementation package explained that the ECB would seek data on S 123 financial corporations for two reasons – to monitor the business of institutions similar to MFIs; and to monitor important areas of (non-banking) financial activity. "Other [i.e. non-monetary] financial intermediaries, except insurance corporations and pension funds" are accordingly included in the reference population in Article 2 of Council Regulation (EC) No 2533/98, from which the ECB may select the actual reporting population (see Chapter 18). The particular reason for monitoring institutions similar to MFIs is to ensure that the MFI population is quickly refreshed in the light of changing business activities. Institutions newly undertaking traditional banking business are likely to join the MFI population promptly through recognition as a credit institution under

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[34] The ESA 95 (paras. 2.51 and 2.55) lists types of financial intermediary which, unless they meet the MFI definition, are classified as S 123 enterprises: corporations engaged in granting mortgages; mutual funds; corporations engaged in financial leasing, hire purchase, the provision of personal or commercial finance, and factoring; securities and derivatives dealers on own account; specialised financial corporations such as venture and development capital companies and export/import financing companies; financial vehicles set up to hold securitised assets; and holding corporations that control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities, but which are not themselves financial corporations.

Community law. The Eurosystem needs however to be alert to any collective investment institutions (CIIs) which in effect become money market funds.

The first close examination of CIIs was undertaken in late 1995 in connection with identification of potential money market funds. The WGS conducted a survey of CIIs to identify their legal structure, characteristics and activities in each EU Member State, reporting the results to the EMI Council in January 1996. The survey covered open-end (the more usual form) and closed-end CIIs, and CIIs which did not meet the then current European legal definition in Directive 95/611/EEC (on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities). For the purpose of the survey, monetary CIIs were defined as CIIs that invest primarily in monetary assets or whose aim is to provide a yield close to money market interest rates.

The survey found a wide variety of CIIs, in terms of apparent purpose of the fund, limitations on access, restrictions on liquidity, and fiscal/legal environment. Their assets totalled about 10% of the assets of credit institutions in the European Union as a whole. Their activities (80% of the total) were concentrated – and CIIs were particularly important in relation to credit institutions – in France, Luxembourg, Germany and the United Kingdom. In six countries (including France, Germany and the United Kingdom) monetary CIIs were the subject of separate regulations; only in Finland, where CIIs could not hold short-term instruments, were monetary CIIs in practice ruled out at that time. The survey accompanied another WGS report to the EMI Council, on the preparation of the list of MFIs, which recommended that all MMFs should be classified as MFIs. The survey did not however indicate how numerous and important MMFs might be.

The application of the MFI definition and the development of criteria to identify MMFs were discussed in Chapter 5. After the January 1996 survey report, shortage of resources prevented any more work on CIIs other that MMFs, or indeed on other S 123 financial corporations, until autumn 1999, when the STC made a survey of all types of financial institutions in this category. The survey showed that total balance sheets of such institutions amounted to about 20% of the aggregated MFI balance sheet, with CIIs (other than MMFs) accounting for about 80% of the total (high share prices at the time may account for the growth in importance of CIIs between two surveys). This second survey and the ensuing work that led to a first publication of statistics by the ECB are discussed in Chapter 26 in Part B.

The EMI/ECB did no work on S 125 enterprises (insurance corporations and pension funds) in preparation for Economic and Monetary Union. The business of these enterprises is anyway far removed from that of MFIs, and they are not part of the ECB's reference reporting population in Council Regulation (EC) No 2533/98. Nevertheless, they have large balance sheets and are active in financial markets. The ECB accordingly prepared to assemble quarterly data on them for financial accounts purposes in 2001-02, publishing them for the first time in early 2003. This development is also described in Part B (Chapter 28).

Annex

Statistics on securities issues other than shares, as first published

Issues
- gross issues
- redemptions
- net issues
- amounts outstanding

Issuers
- euro area residents, in euro[35] and in other currencies separately
- non-residents of the euro area, in euro only
- total, in euro only

Initial maturity of the securities
- short-term (1 year or less, exceptionally 2 years or less)
- long-term (all other securities, including securities with optional maturity dates, the latest of which is more than 1 year away, or with indefinite maturity dates)

The data on issues by euro area residents were available monthly, and were thought to cover 90% of such issues; the data on issues in euro by non-residents of the euro area were available quarterly from the BIS.

[35] Including the former national currencies of the Member States participating in the euro area.

Source: ECB Monthly Bulletin, November 1999, Table 3.5

Balance of payments and related statistics

Chapter 10

Purpose, general nature and frequency

The expected focus of the ECB's interest in balance of payments statistics and so the general nature of the information to be collected. The importance of international standards. The need for monthly data on key items.

The main focus of policy interest in balance of payments transactions for the ECB was expected to be their effect on monetary conditions in the euro area, and on the foreign exchange market. For this purpose, large and volatile flows were likely to be of greatest interest, and these in turn were likely to occur mainly in the financial account, in particular in direct investment, portfolio investment and "other" investment. Work to harmonise statistics and compile flows for the euro area as a whole in each of these parts of the financial account is described below. There are also sections on reserve assets of the Eurosystem and on the international investment position. The WGS also paid attention to investment income in the current account and to the (new) capital account,[36] but hardly at all in the development phase to trade in goods and services. This was not to deny the importance of external trade statistics to the ECB's analysis of economic conditions in the euro area and prospects for inflation under the second pillar of the monetary policy strategy.

The WGS agreed early on that as far as possible euro area balance of payments statistics should conform to the IMF Balance of Payments Manual, 5th edition (1993) as requested by users in the autumn 1992 consultation, while recognising that monthly data compiled to a short timetable might not do so in all respects for practical reasons. Adopting the BPM5 as a standard avoided reopening many conceptual issues, although as will be seen the BPM5 was ambivalent on some points which had to be resolved for the sake of good euro area aggregates. Complying with the BPM5 also promoted consistency between the balance of payments, which can be viewed as the economic and financial account of the external (rest of the world) sector, and the economic and financial accounts of the economic sectors in the euro area.[37] Thus consistency between the SNA 93 and BPM5, and between the SNA 93 and the ESA 95, meant consistency between euro area balance of payments statistics conforming (largely) to the BPM5 and the ESA 95.

This seemingly innocuous point was disputed. Where the focus of interest is monetary and foreign exchange market conditions and the use of the data is for monetary policy

[36] The IMF Balance of Payments Manual, 5th edition (BPM5), published in 1993, introduced a change in terminology. What had been the capital account (direct and portfolio investment, etc.) became the financial account. The term capital account now covered capital transfers, debt forgiveness and similar items. To avoid confusion, it is called the "new capital account" in this book.

[37] To integrate balance of payments and international investment position statistics fully into financial accounts nevertheless required much further work in the early years of Economic and Monetary Union, for reasons explained in Chapter 29 in Part B.

purposes, as was expected for the monthly balance of payments, a reasonable argument could be made for compiling balance of payments statistics on a payments basis (which came anyway more easily from the bank settlements-based collection systems in use in most Member States in the preparatory period) rather than on the economic accounts basis underlying the international and European standards, which would not correspond to monetary flows and would require some estimation and imputation.[38] Following this approach, however, would have implied different balance of payments statistics for different purposes, possibly adding to costs and certainly creating confusion.

The difference between flows on a payments basis and the BPM5 standard tends to be greatest in direct investment (especially in the treatment of reinvested earnings) and portfolio investment, where the BPM5 recommends the recording of interest on an accruals basis with matching entries in the current and financial accounts.

It might also be noted that the autumn 1992 consultation elicited some continued interest in national balance of payments statistics relating to euro area Member States. Indeed, the continued need for national economic and financial accounts, and obligations under the ESA 95 and to the IMF, imply some national balance of payments statistics.

A separate question from harmonisation of concepts and definitions in accordance with the recommendations of the BPM5 was the need for euro area balance of payments statistics at monthly frequency.[39] In consultations in 1992-94 most Member States stated that they regarded monthly statistics as essential for the conduct of monetary policy. The United Kingdom and Ireland disagreed, on the grounds that the euro area, as a large, relatively closed economy, probably with a freely-floating exchange rate, would pay more attention to monetary, other financial and economic developments within the area, and less attention to the balance of payments, than individual Member States were at present inclined to do. There were also differences within the majority view. The strongest support for a full, though not necessarily detailed, monthly balance of payments came from the FEPSC, which also sought weekly data on the external positions of MFIs with a three-day deadline, an initial suggestion in their response to the 1992 consultation which was not developed. The Committee of Governors Economic Unit had a different emphasis: monthly data for the current account, perhaps with estimates for items other than trade, and also for monetary items within the financial account (presumably meaning the external assets and liabilities of MFIs); and quarterly data for the rest of the financial account (and presumably for the new capital account). The MPSC paid little attention to balance of payments statistics in its reply to the 1992 questionnaire, but in replying to a second consultation by the WGS in summer 1994 stated that the majority of members supported the proposal to compile summary balance of payments statistics monthly. Apart from the reservations of the United Kingdom and

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[38] The terminology may be confusing. Balance of payments statistics no longer measure "payments" in the normal sense of an exchange of money; instead, like the rest of the national accounts, they measure transactions. The BPM5 defines a transaction as *"an economic flow that reflects the creation, transformation, exchange, transfer or extinction of economic value"*. (paragraph 13). *"A number of international transactions that are of interest in a balance of payments context may not involve the payment of money, and some are not paid for in any sense…[This] constitutes a principal difference between a balance of payments statement and a record of foreign payments"* (paragraph 26).

[39] The related question of how to collect data for balance of payments purposes was also controversial – see Chapter 39 in Part B for a discussion of this matter.

Ireland, however, Denmark and the Netherlands, in contrast to the earlier position of the Economic Unit, questioned the case for monthly current account statistics, while stressing the importance of monthly summary data for the financial account. (It might be noted that some central banks, when replying to the 1994 consultation, suggested further data needs which were not taken up – a monthly measure of private external indebtedness as a contribution to monthly data on total indebtedness of non-bank sectors, some geographical breakdown in the monthly balance of payments, and information from banks on spot and forward trades in the foreign exchange market by their customers.)

The fullest statement of the case for a monthly balance of payments was made by EMI economists in replying to the 1994 consultation. Their reply identified several uses for balance of payments statistics: interpreting monetary developments in the euro area; monitoring, by accumulating flows, the total indebtedness of non-banks and the external position of the euro area; identifying the source of exchange market pressures; and spotting turning points in the current account. They concluded that timely availability of monthly balance of payments statistics, with at least all the main financial account items, would be essential to the performance of the ESCB's tasks. They also added some further requests for a currency breakdown of the main financial account items and an "other EU"/rest of the world split in the monthly balance of payments which were not adopted for the start of Stage Three.[40]

Following this consultation, the WGS proposed, in its November 1994 report to the EMI Council, a monthly summary balance of payments for the euro area consisting of key items and available five to six weeks after the end of the month. The report listed the proposed key items: a breakdown of the current account into goods, services, factor income and transfer payments; a total figure only for the (new) capital account; and some detail in the financial account, broken down into direct, portfolio and "other" investment, and reserve assets, with instrument detail in the portfolio account and sector information in "other" investment. These were the monthly breakdowns that were developed, published in the implementation package, and subsequently introduced.

[40] Though both have since been revived, the first in connection with the international role of the euro (see Chapter 38 in Part B), and the second as part of a limited geographical breakdown of the euro area balance of payments and international investment position to be introduced in 2004.

Annex

Monthly key items for the balance of payments of the euro area

(Credits and debits in current and capital account, assets and liabilities in financial account separately)

I. Current account (credits and debits)
   Goods
   Services
   Income
   Current transfers

II. Capital account

III. Financial account (assets and liabilities)
   Direct investment
   – abroad
   – in the reporting economy
   Portfolio investment
   – equity securities
   – debt securities
     of which: – bonds and notes
               – money market instruments
   Other investment
   – MFIs (excluding Central Banks)
     of which: – long-term
               – short-term
   – general government
   – monetary authorities
   – other sectors
   Financial derivatives (net)
   Reserve assets

Errors and omissions (adjustments resulting from imbalances)

Source: Guideline ECB/1998/17, Annex II

Chapter 11

Concepts and definitions – financial account

Applying the new Balance of Payments Manual (5th edition). Defining and measuring direct investment. Portfolio investment – identifying inward flows, a major difficulty requiring a roundabout approach. Financial derivatives – keeping abreast of innovation, the treatment of interest rate swaps and forward rate agreements, and other measurement issues. Other investment – the link between MFIs' cross-border transactions and their balance sheets. Reserve assets as defined for the euro area. The international investment position on a net basis at first to avoid measurement problems.

Direct investment

The 1992 survey of user requirements indicated a need for *"consolidated monthly balance of payments statistics for the main items and for at least the Monetary Union … with a reporting delay of 4 to 6 weeks"*. They should conform to the BPM5; the monthly statistics could be "abridged". Although direct investment would be without question a "main item", users did not stipulate their requirement for detail at monthly or lower frequencies.

The September 1993 WGS reports on availability of national data and the main gaps to be filled came shortly after finalisation of the BPM5. The report concerning the balance of payments noted that Ireland and the United Kingdom currently had no monthly statistics and that some other Member States would have difficulty with geographical allocation.[41] The first proposals for harmonisation (December 1993) noted that the BPM5 introduced many changes, but it was not yet clear how far NCBs would have to change their direct investment statistics. The report noted the new threshold of a 10% share in the equity of an enterprise for a direct investment relationship to be established (several Member States currently used 20%). It also remarked on difficulties associated with special purpose entities (SPEs) and the treatment of inter-company loans, especially trade credits, as direct investment; the reporting of reinvested earnings; and the geographical allocation of direct investment flows.

An assessment of differences in definitions and requirements for harmonisation (a module attached to the November 1994 WGS report to the EMI Council) emphasised again the importance of consistency with the BPM5 and with the ESA 95 (still in preparation). The report noted areas of difficulty in complying with the BPM5, as follows:

- the identification of a direct investment relationship;

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[41] "Geographical allocation" means identifying the country or area in which the counterparty to a cross-border transaction is resident. Member States may do this in different ways, and yet succeed in compiling internally consistent national balance of payments statistics. Different approaches to geographical allocation are however very likely to make euro area aggregates in terms of gross flows wrong, where they are compiled by adding up national contributions, even if these are internally consistent.

- the treatment of SPEs (entities set up for a single purpose, e.g. to act as an agent in borrowing and lending operations for a parent company resident elsewhere);
- the treatment of construction and exploration activities (recorded in the current account in some countries and in the financial account in others);
- the calculation of reinvested earnings (amount and timing of recording);
- the direction of direct investment, especially in cases of cross-participation and reverse loans (loans from the direct investment enterprise to the parent company);
- the recording of losses, and of contributions to cover losses.

Where the BPM5 was ambivalent, European guidelines would be needed to ensure the consistent treatment needed for euro area aggregates.

By the time of the January 1996 WGS report to the EMI Council, statisticians had considered the conceptual and practical implications of applying the BPM5 in the area of direct investment, and were seeking to do so though with practical reservations. A report from the Financial Flows and Stocks Task Force (FFSTF) in December 1997 distilled this thinking into a set of proposed estimation methods for use where the required magnitudes could not be measured directly. Proposals for European compilation guidelines, subsequently incorporated in Guideline ECB/1998/17, included the following:

- adoption of the directional principle (so that, for example, all capital transactions of a direct investor with a direct investment enterprise abroad are treated as outward direct investment (negative if representing a reverse loan or a reverse participation). It was accepted that not all Member States could adopt the directional principle immediately;
- treatment of inter-company flows in the form of debt securities and trade credits between direct investors and direct investment enterprises as direct investment, regardless of maturity (as in the BPM5, however, special rules would cover financial business between related financial enterprises);
- a 10% ownership threshold for the definition of direct investment;
- acceptance of the recommendation in the BPM5 concerning the treatment of SPEs set up as financial intermediaries, though Member States saw practical difficulties in recognising them as such;
- treatment of purchases of holiday homes and land as direct investment.

For practical reasons the WGS was prepared to allow departures from a recommendation in the BPM5 that individual holdings of a group of related enterprises in another enterprise, each individually less than 10% but exceeding 10% in total, should count as direct investment.

These proposals were summarised in the implementation package (July 1996). Only inward and outward direct investment would be required in monthly and quarterly statistics, with no instrument breakdown.

Portfolio investment

User requirements for portfolio investment were similar to those for direct investment, namely monthly and lower frequency data for the euro area as a whole, with the monthly data after four to six weeks, in unspecified detail.

All the Member States that had monthly data on direct investment (inward and outward) had the same for portfolio investment (September 1993 WGS report). All except Greece could provide an instrument breakdown, and all except Greece and

Ireland claimed to be able to identify flows with each other EU country (the United Kingdom at quarterly frequency only).

This apparently promising result turned out to be a false hope. Especially on the liabilities side (inward investment), it proved very difficult to identify the holders of securities issued by residents. Some existing systems allocated flows according to the location of the non-resident transactor, who might be an intermediary and not the final buyer or seller; while some systems allocated flows according to the currency in which they were settled. As the December 1993 WGS report noted, "*different concepts of regional allocation … do not allow a meaningful aggregation of national data*": the matter needed further consideration.[42] Apart from the question of geographical allocation (and the point that the ownership threshold of 10% for direct investment as proposed would have implications for what was classified as portfolio investment), the December 1993 report noted that the meaning of the term "securities" varied among countries, and also that there were discrepancies among countries in the treatment of repos and bond lending, the main question being whether these were treated as a form of lending against collateral, or as transactions in the underlying securities. All of these questions required further work. The views of users were sought again in 1994; they requested a breakdown of portfolio flows (on both sides of the account) into

- equity securities;
- debt securities, of which
  - bonds and notes,
  - money market instruments,
  - financial derivatives.

Recording transactions in money market instruments and financial derivatives in the portfolio investment account was an innovation in the BPM5. The recommendations of the BPM5 were still being digested at the time of a further report (November 1994). The November 1994 WGS report raised various issues in the area of portfolio investment. These were the questions of recording alternation by agreement (for example, the conversion of short-term paper into a long-term bond – probably of minor importance); the recording of transactions in portfolio securities among resident sectors (not balance of payments transactions, but important for financial accounts – the BPM5 recommends that they should be recorded with offsetting entries such as to leave no net effect on the balance of payments); the treatment of repos and bond lending; and whether portfolio transactions should be recorded gross or net (purchases minus sales on each side of the account). There was also the question of treatment of accrued interest, where the BPM5 recommends offsetting entries in the current and financial accounts,[43] and the treatment of financial services charges rolled up in the prices of securities. The issue of a consistent geographical allocation of transactions, necessary for the compilation of coherent euro area aggregates, remained.

A specialist report attached to the January 1996 WGS report to the EMI Council

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[42] This is an instance of the "geographical allocation" problem. Different approaches, if applied consistently, can yield accurate national data, but not a coherent euro area aggregate based on those national data, as noted in the December 1993 report.

[43] Thus interest accruing on an asset held abroad is recorded as a credit in the current account, and as simultaneous outward investment in the financial account. These entries are not of course related to any actual payment of money. Payment of the interest when it finally occurs is then recorded as a disinvestment matched (usually) by a counterpart entry in the financial account, with no further entry in the current account.

reviewed in detail the work on these and other issues, and included proposals where expert consideration had reached some conclusions. Statisticians were aware of continuing innovations in financial markets leading to the introduction of new instruments whose classification, valuation and statistical treatment generally were often not straightforward. The Bank of England had already developed a financial terminology database, to which balance of payments statisticians throughout the European Union contributed, containing details of new instruments and guidance on their statistical treatment, and criteria for classification of securities, using in particular the International Securities Identification Number (ISIN) code. This development later led to a proposal for a centralised securities database, discussed in Part B, and more immediately to a report from a specialist task force presented in November 1997, with an addendum in April 1998, *"The ISIN code as an instrument to harmonise European balance of payments statistics"*. On coverage of portfolio investment, all Member States would include equity, debt securities, money market instruments and financial derivatives (insofar as instruments were not appropriately included in direct investment or reserve assets). They recognised that it could be difficult in some cases to use the criterion of tradability to distinguish between securities (portfolio account) and loans ("other investment" account). Several criteria were suggested for judging whether an instrument should be classed as a security: these included provision of an ISIN code, accounting rules, banking regulations and market practice, together with guidelines in the BPM5, SNA 93 and ESA 95. Change of ownership would be the main criterion for recording a transaction as a balance of payments transaction in the underlying instrument. On this point, the BPM5 seemed clear on repurchase agreements, regarded as a newly created financial instrument (a collateralised loan), and not as a transaction in the securities concerned; however, the treatment of stock lending was less clear.

Collecting data on transactions in foreign securities among residents presented serious difficulties for some collection systems, but the WGS considered that at least assembling data on transactions between resident banks and resident non-banks should be investigated. The WGS supported the IMF recommendation for net rather than gross reporting. The timing of recording (the accrued interest point apart) appeared uncontentious, but the WGS saw that excluding from the financial account any fees, commissions, etc. included in the price of securities, though undoubtedly correct in concept, could present practical difficulties.

The financial terminology database provided a valuable reference source for balance of payments compilers seeking harmonisation. To exploit fully the ISIN code would require more fields in the ISIN message for statistical purposes. Early discussions with the authority managing the ISIN code opened access to much useful information but failed to get a residence field added to the code (ISIN is a commercial application developed for securities markets purposes and not designed for use in compiling balance of payments statistics). The Ufficio Italiano dei Cambi, in consultation with the EMI and the IMF (which also had a strong interest in the matter, particularly in connection with its global portfolio investment survey) began work on a securities database. The FFSTF examined the scope for using the ISIN code, and the development of a centralised securities database using standard international classifications, in a report to the WGS in October 1997, with an addendum in April 1998. All this work foreshadowed later developments in the ECB (see Chapter 40 in Part B).

On the difficult question of geographical allocation of portfolio flows, users (the MPSC, FEPSC and EMI economists) all expressed a preference for the creditor/debtor approach when consulted in autumn 1995 since, as well as complying with the BPM5 recommendation, it was considered the most useful approach for analysis. The difficulties of applying it were however recognised.

This issue may merit a short digression. In the debtor/creditor approach, assets (outward investment) are allocated according to where the debtor (issuer or borrower) is resident. Reporting agents can usually tell where the issuer of securities which they hold is resident. Provided they can distinguish accurately between security claims on residents of their own or other euro area countries and security claims on the rest of the world, aggregating reported claims on the rest of the world (or changes in them) gives the required figure for outward investment by euro area residents. Inward investment is more difficult because reporting agents in the euro area often cannot identify who holds securities which they have issued (that is, they cannot identify the creditor); or, if the euro area residents are selling securities in the secondary market which represent claims on other euro area residents, they may not know whether the buyer is a euro area resident or not. In active securities markets the debtor/creditor approach may not be workable in practice, at least without information from custodians or those operating securities settlement systems.

This problem could not be satisfactorily solved before the start of Economic and Monetary Union (or indeed in the early years of Stage Three). A further WGS report to the EMI Council (July 1996) proposed a roundabout solution to the problem of measuring inward portfolio flows, once the composition of the euro area was known in spring 1998. Essentially this approach calculates the change in holdings outside the euro area of securities issued by residents of the euro area (which is net inward investment) as the difference between the amount of such paper outstanding (or changes in it) and recorded holdings of it (or changes in them) by residents of the euro area, whether resident in the same country as the issuer of the paper, or resident in another euro area Member State. This approach, the best that could be done at the start of Stage Three (and for some years thereafter – see Chapter 40 in Part B for an agreed approach to improve it) is clearly prone to error, since the result is a residual between large and variable amounts. The approach also requires information on cross-border transactions and positions within the euro area, which is acceptable as a transitional measure but perhaps not to be relied on indefinitely. Chapters 18 and 19 refer to the two legal texts relating to this point at the start of Stage Three, namely Regulation (EC) No 2533/98 (Recital 12) and Guideline ECB/1998/17 (Article 1).

Identifying holders of mainly non-registered negotiable securities issued by entities resident in the euro area is a serious difficulty in other areas of statistics. The distortion to measured broad money in 2000-01 led to strong efforts to develop new sources of information on non-resident holdings of money market fund shares/units and short-term debt securities issued by other MFIs in the euro area. Financial accounts are inevitably also affected. The problem and attempts to solve it in the early part of Stage Three are further discussed in Part B (Chapter 34).

Financial derivatives

In their initial (December 1992) statement of requirements, users did not mention cross-border transactions in financial derivatives. The implementation package (July 1996) contained no specific requirements for data on financial derivatives, noting that discussions were continuing in close cooperation with other international organisations.

The SNA 93, BPM5 and ESA 95 all recommend the inclusion of financial derivatives in balance sheets at market value, or the closest ascertainable approximation to it. They also recommend the treatment of settlements under financial derivatives contracts, or transactions in financial derivatives, as for the most part financial transactions. This treatment is reflected in the euro area international investment position and balance of payments, where derivatives are recorded separately, and in MFI balance sheets. The international and European manuals are however sparing in terms of detailed guidance, and in one important respect statisticians came to regard their guidance as wrong.

The important departure from the manuals concerned the treatment of settlements under interest swaps and forward rate agreements. For example, a borrower might take out a variable rate loan but fix the interest outgoings by undertaking a commitment (through an interest rate swap) to pay a fixed stream of interest in exchange for a series of variable interest receipts which could be used to service the loan. In the manuals, any settlement under the contract would be treated as payment or receipt of interest, and so as a current account item in the income and expenditure accounts and in the balance of payments. However, interest is a payment for capital advanced by one party to another, whereas no capital is advanced under a derivatives contract. Statisticians had come to regard settlements under an interest swap or forward rate agreement as similar to settlements under any other type of financial derivatives contract, which are recorded in the financial account. Ahead of amendments to the SNA 93, BPM5 and ESA 95, the WGS agreed to adopt this treatment and record such settlements in the financial account rather than the current account; this treatment was accordingly reflected in the WGS report to the EMI Council of November 1997 (*"The recording of financial derivatives in the balance of payments and the international investment position"*) and the money and banking statistics compilation guide (April 1998).[44]

The treatment of other types of derivatives contract and associated margin payments is also conceptually consistent in the euro area money and banking and balance of payments statistics, though the complexity of the market in such contracts, and different national accounting rules, probably make for some inconsistency in practice. The WGS recommendation on the balance of payments treatment of margin payments is one instance of this: options-style margin payments are a form of collateral, and repayable; futures-style margin payments are in effect periodic settlements under the derivatives contract, and are not repayable. Thus in the words of the November 1997 WGS report:

"In principle, initial margin payments should be regarded as changes in deposits and be recorded [in the balance of payments], *if identifiable, under Other Investment, Other Payables/Receivables. The treatment of variation margin payments depends on the form of the variation margin: options-style variation margins should be regarded in principle as changes in deposits and should be recorded, if identifiable, under Other Investment, Other Payables/Receivables. Futures-styles variation margin payments should be regarded, in principle, as transactions in derivatives and should be recorded under Financial Derivatives. Member States are encouraged to follow this recommendation.*

[44] Amendment to the SNA 93 and BPM5 proceeded smoothly. The subsequent amendment to the ESA 95 by contrast proved highly controversial, since the new treatment affected the recording of government interest payments and receipts where these were hedged through interest swaps or forward rate agreements, and so potentially affected government deficits for purposes of the Excessive Deficit Procedure. The amendment to the ESA 95 was eventually adopted with the proviso that in EDP notifications the old treatment would continue. The ECB (like some others) regarded two government deficit figures as regrettable but unavoidable in the circumstances.

In those Member States where it is impossible, at present, to make a distinction between the two types of margining, it may be possible to estimate the futures-style variation margin. Consideration could also be given to reporting the margin payments under a separate item until the recommended treatment is implemented."

The treatment of margin payments recommended in the money and banking statistics compilation guide (April 1998) is consistent with this, though the focus there is different, namely the need to preserve the quality of the monetary aggregates by excluding deposits which are clearly not monetary in nature. Thus:

"*Margin payments (margins) made under derivatives contracts should be classified as "deposit liabilities" where they represent cash collateral deposited with MFIs to protect against credit risk, and where they remain in the ownership of the depositor and are repayable to the depositor when the contract is closed out.*

On the basis of current market practice, it is also suggested that margins received by the reporting MFI should only be classified as "deposit liabilities" to the extent that the MFI is provided with funds that are freely available for on-lending. [Margins received by an MFI that are passed to a third party within a dedicated customer account do not appear on the balance sheet.] *Where a part of the margin received by the MFI has to be passed to another derivatives market participant (e.g. the clearing house), only that part which remains at the disposal of the MFI should in principle be classified as "deposit liabilities".*

The complexities of current market practice may make it difficult to identify those margins that are truly repayable, because different types of margin are placed indistinguishably within the same account, or those margins that provide the MFI with resources for on-lending. In these cases, it is acceptable to classify these margins under "remaining liabilities" or as "deposit liabilities", according to national practice."

The November 1997 report reaffirmed the principle of market valuation in line with the manuals, while recognising the difficulty of applying it in some cases, especially where derivatives contracts are held as a hedge rather than as a trading position. The report recognised the great difficulty of recording separately in the current account the service charge element in the premium paid for an option, accepting that the whole premium could be recorded as the acquisition of a financial asset (by the buyer) and incurrence of a liability (by the seller). The report also recognised the difficulty in many cases of determining the residency status of counterparties. It recommended a treatment for various kinds of derivative not explicitly covered in the BPM5, but where guidance was needed for the production of coherent euro area aggregates (commodity swaps, equity index swaps, forward foreign exchange contracts – all to be recorded as financial derivatives in the financial account; embedded derivatives – to be recorded with the underlying financial instrument; and credit derivatives – to be treated on a case-by-case basis). Further consideration of practical aspects led to a later discussion by the WGS in April 1998. Given the practical difficulties of recording credits and debits separately, because the market value of a derivative contract may oscillate between positive and negative, the WGS decided to record transactions in financial derivatives as a single net figure in the financial account of the balance of payments, deriving the euro area aggregate by summing net positions in the national data. Transactions in financial derivatives would appear separately in the portfolio investment account. Gross positions would however be recorded in the international investment position when the i.i.p. moved to a gross basis (assets and liabilities separately), as it did in 2002.

Other investment

"Other investment" in the financial account is a residual category comprising anything in the financial account which is not direct or portfolio investment or included in reserve assets (see the next section) or derivatives. The largest elements are usually cross-border financial transactions of banks (or MFIs) and government, trade credits given and received, and currency and deposits and loans (which may be assets or liabilities) of other sectors.

Harmonisation is difficult in this area because of the varied nature of the account. Users initially stated a requirement for sectoral detail, stressing the importance of external transactions of MFIs and of a complete balance of payments financial account. Subsequently users agreed to a simplified presentation of "other investment" (meaning with less instrument detail than recommended in the BPM5), with priority given to the sectoral breakdown considered to be most useful for the ECB's monetary policy analytical purposes. Users also agreed to dispense with a maturity breakdown of the "other investment" account in the euro area balance of payments, except for transactions of MFIs.[45] (A feature of the BPM5 is reduced emphasis on maturity on the grounds that financial innovation has lessened its importance.) These simplifications, proposed in a report from the WGS to the EMI Council in January 1996, did not violate the BPM5 in any way, but avoided difficult harmonisation issues in areas such as the distinction between loans and deposits, where the detailed information seemed to be of little interest to the EMI/ECB. (Some of these questions had to be reopened later in connection with the monetary presentation of the balance of payments – see Chapter 35 in Part B.) Where differing practice among Member States would affect the quality of key aggregates, statisticians would pursue harmonised solutions in line with the BPM5: examples were trade credit given and received (not at that time recorded by some Member States), and the practice in some Member States of including interest (e.g. on financial leases) in the financial account rather than in the current account. The WGS report stressed that the proposals for simplification and different presentation related to euro area aggregates only; there was nothing to stop Member States in national balance of payments statistics from providing any more detailed information recommended in the BPM5.

The WGS proposed that "banks" in the "other investment" account should mean MFIs. It did not follow that it would be easy to relate this part of the balance of payments to changes in MFIs' external positions as recorded in the money and banking statistics. While MFIs report the level of outstanding claims on and liabilities to non-residents of the euro area in their monthly balance sheet reports at end-month market values/exchange rates, in several Member States they record their cross-border transactions on own account at the prices/exchange rates at which the business was conducted and then aggregate them over the period. Since there are also coverage differences (some banking transactions will properly be recorded as direct or portfolio flows in the balance of payments, or indeed as changes in international reserves since the Eurosystem is part of the MFI sector), and since "tail" MFIs may have cross-border transactions recorded in the balance of payments but do not contribute directly to the monthly MFI balance sheet statistics, it is apparent that MFI external transactions in

[45] And to dispense with an impractical two-week deadline for monthly data on external transactions of MFIs.

"other investment" in the balance of payments statistics for a particular month may differ substantially from the change in balance sheet totals for external assets and liabilities in the monthly money and banking statistics. Nevertheless there is a large common element between the two sources, which should be consistent and reconcilable, all the more so given the focus of the ECB's interest on monthly balance of payments statistics for monetary policy analysis. In the early years of Stage Three the ECB and the Statistics Committee accordingly paid considerable attention to the relationship between the MFIs' contributions to the two areas of statistics, as described in the chapter on a monetary presentation of the balance of payments (Chapter 35 in Part B).

Reserve assets

Since data on reserve assets would require no action by reporting agents outside the Eurosystem, no preparations were undertaken until 1998. The matter was not however entirely straightforward. The following remarks draw on an ECB publication, *"The Eurosystem's international reserves"* which, although released well after the start of Stage Three in October 2000, placed on record the position at the beginning of Economic and Monetary Union.

There are three overlapping concepts, each appropriate to its own purpose. This section focuses on the first of them, and touches on the second. The third, which was not part of the ECB's statistical requirements, is discussed in Part B (Chapter 27). The three concepts are:

- reserve assets as part of the balance of payments account as defined in the BPM5 (though, as will be explained, the Manual requires some interpretation);
- foreign currency liquidity – the assets available to the authorities in conducting foreign exchange operations;
- the IMF/BIS template on international reserves and foreign currency liquidity – a detailed analysis of the external and foreign currency position, including derivatives and reserve-related liabilities, developed for multilateral surveillance purposes.

The allocation of Eurosystem holdings to the ECB and the NCBs respectively is also of some importance in connection with reserve assets.

As is the case throughout the balance of payments accounts, the BPM5 is directly relevant to the definition of reserve assets in the euro area balance of payments: *"Reserve assets consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of payment imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes."* (BPM5, paragraph 424).

The key elements here are "external" and "readily available to and controlled by monetary authorities". In the context of the euro area, "external assets" must mean claims on non-residents of the euro area. Thus reserve-type claims of one euro area Member State on another, or holdings by the Eurosystem of foreign currency deposits placed with an MFI located in the euro area, are not reserve assets of the euro area. "Readily available to … [the] monetary authorities" requires that reserve assets should be highly liquid, perhaps marketable, and should represent claims on a creditworthy debtor. "Controlled by …" requires that the monetary authorities should have unfettered use of the assets. The Eurosystem is the only “monetary authority” in the euro area. “Reserve assets” in the euro area balance of payments and international investment position are therefore highly liquid, etc. assets held by the Eurosystem which represent claims on non-residents of the euro area. They may include derivatives. The BPM5 does not prevent the inclusion of domestic currency claims, provided they are “readily available”, etc. and are external assets – in this context domestic currency claims would be euro-denominated claims on non-residents of the euro area held by the Eurosystem. In the case of a reserve currency, such claims may indeed be usable for “direct financing of payment imbalances”. However, as proposed by the STC after discussion with the IMF, euro-denominated claims (by decision) do not count as reserve assets of the Eurosystem.

Two points should be made here. Under the Treaty, the ECB and NCBs are the only institutions in the euro area which hold reserve assets. Thus Article 3.1 of the Statute states that *“the basic tasks to be carried out through the ESCB shall be … to hold and manage the official foreign reserves of the Member States”*. The Statute goes on to refer to foreign exchange working balances held by government, but these are not considered to be reserve assets (in the euro area balance of payments they are part of “other investment” if they represent external claims). The second point is that central banks do hold significant foreign currency balances with resident banks – at the start of Stage Three such holdings were equivalent to about 2% of Eurosystem reserve assets. The ECB publishes the amount of such holdings as a memorandum item in the Monthly Bulletin, making clear that they are not part of reserve assets. Changes in such holdings are not themselves a balance of payments item, but are likely to be reflected in the net external assets of (other) MFIs, which are part of “other investment”.

Adopting a common definition for reserve assets in the Eurosystem, and excluding any assets which represent claims within the euro area, has the desirable result that reserve assets in euro area countries, together with reserve assets held by the ECB, sum to the Eurosystem total. (Reserve-type instruments held by an NCB which represent a claim on another euro area country are recorded as portfolio investment or “other” investment, as appropriate, in national b.o.p. and i.i.p. statistics, and do not appear in euro area b.o.p. and i.i.p. statistics.)

The allocation of reserve asset holdings between the ECB and the NCBs, though it does not affect the euro area aggregates, is of some interest. Article 30 of the Statute obliged the NCBs to transfer up to EUR 50 billion to the ECB at the start of Stage Three; the Treaty provides a procedure for further amounts to be transferred. This initial endowment is the source of holdings of reserve assets by the ECB. The NCBs received a claim on the ECB corresponding to the reserve assets transferred at the end of 1998; these claims are recorded as “other investment” in the national b.o.p. and i.i.p., but are not of course recorded in the euro area accounts. The majority of reserve assets in the Eurosystem (some 88% of the total) remains with the NCBs and is recorded as being held by them.

Reserve assets are, according to the definition adopted, denominated in foreign currency or Special Drawing Rights (SDRs), or are in the form of gold. For inclusion in the euro area statistics, transactions in reserve assets are valued at the prices and exchange rates at which they were carried out; outstanding amounts are at current prices and exchange rates, though because of difficulties in some NCBs, and following much discussion between the WGS and the WGAI, full revaluations were carried out only quarterly in the early part of Stage Three.

International investment position (i.i.p.)

The i.i.p. is the amount outstanding of euro area claims on the rest of the world, and euro area liabilities to the rest of the world, with certain exceptions valued (according to the recommendation of the BPM5) at market prices and exchange rates of the time. In principle the change in the i.i.p. between two dates equals the surplus or deficit on the current account and the (new) capital account in the intervening period, after making allowance for all valuation and classification changes over the period.

In the autumn 1992 consultation, users requested a monthly i.i.p. with a four to six weeks' deadline, the same as for the monthly balance of payments. Some elements of the i.i.p., namely the external positions of the Eurosystem and other MFIs, are available monthly, and some others probably could be made available with some effort. The challenge would be to compile in particular estimates for direct investment and portfolio investment stocks at current market value. The WGS advised that a monthly i.i.p. was not practical, unless it was compiled by simply cumulating monthly flows in the financial account of the balance of payments. At that time the United Kingdom already compiled a quarterly i.i.p.; this was probably the highest frequency to which it was sensible to aspire. For the start and early part of Economic and Monetary Union, users settled for a complete i.i.p. annually, at year-end, after statisticians described the situation as “desperate” (September 1993 WGS report to the Committee of Governors). The implementation package (July 1996) accordingly stated a requirement for an annual i.i.p. based on the standard components for the i.i.p. as presented in the BPM5 and the agreed breakdown in the euro area quarterly balance of payments statistics (with which the i.i.p. would be consistent in terms of concepts and definitions, even if not easily reconcilable). The July 1996 report said that a six-monthly i.i.p. might eventually be required as a substitute for a geographical breakdown of quarterly balance of payments flows if such a breakdown could not be provided, the intention being that the geographical breakdown of the i.i.p. would provide a benchmark to break down the higher frequency flows. More recently, there have been moves towards a quarterly frequency. Indeed, a quarterly i.i.p. for the euro area will start in 2004 – see Chapter 27 in Part B.

Even the annual i.i.p. presented serious problems with geographical analysis. As in balance of payments statistics, contributors to the i.i.p. must, within external assets and liabilities, distinguish between positions with residents of other euro area countries and positions with residents of the rest of the world. This may be even more difficult for stocks than for flows and, as for flows, it is most difficult for portfolio liabilities, where the euro area issuer of negotiable paper may not know who holds it. Use of mirror data compiled by countries outside the euro area was seen as an approach for the future, when the frequency of the IMF's international portfolio investment survey was expected to increase from every four years to annually.

For these reasons, the i.i.p. was calculated on a net basis in the early part of Stage Three. Thus the data showed a single (net) figure for direct investment stocks (a net asset), a single (net) figure for portfolio investment stocks (a net liability), etc. The implicit assumption was that cross-border liabilities and claims within the euro area would cancel out. While this assumption was clearly wrong, to judge from the discrepancies in the limited bilateral data available, the first gross data for assets and liabilities separately, when eventually published in 2002 with end-year data for 1999-2001, did not indicate that the net results had been seriously inaccurate.

Valuation of items in the i.i.p. was also seen as presenting a serious challenge. The BPM5 recommendation, and the requirement set out in Guideline ECB/1998/17, is valuation at current market prices. This is not always feasible, especially for the unquoted shares element in direct investment, where the Guideline notes that specific rules may be applied. Chapter 27 in Part B describes further work in this area in the early part of Stage Three.

Chapter 12

Concepts and definitions – current and (new) capital accounts

Less EMI development effort devoted to the current and (new) capital accounts than to the financial account, but investment income of great interest. Measuring accruals rather than flows of cash. The (new) capital account – terminology. Statistical treatment of EU institutions (annex).

Within the balance of payments, the EMI's interest in the preparatory phase centred on the financial account. Because of its close link with financial flows and the international investment position, however, the EMI/ECB also paid close attention to investment income (receipts and outgoings) in the current account. The (new) capital account was considered to be of less importance to the ECB.

Recording of interest and reinvested earnings in the current account of the balance of payments

To reflect the use of capital, the BPM5 recommends that interest (credits and debits) should be recorded as it accrues, not when it is paid and received. The difference between the price of zero coupon and deep discounted bonds and their value at maturity is to be treated as interest, and is also to be recorded on an accruals basis. If possible, the BPM5 recommends that this be done on a "creditor" basis, using prevailing market prices for the securities which affect the return that a new purchaser would earn. Reinvested earnings of direct investment enterprises are recorded in the period in which they are earned with matching entries in the current and financial accounts of the balance of payments. By contrast, remitted earnings are recorded at the time paid. EU Member States accepted these recommendations and sought to apply them in the euro area balance of payments.

Accruing interest rather than recording amounts paid or received was an innovation in the BPM5, in line with the SNA 93. All Member States had to develop new calculation and estimation methods to comply. Since the practical difficulties, especially for Member States reliant on a bank settlements collection system for balance of payments statistics, were greatest in compiling monthly statistics to a short deadline, the WGS proposed (January 1996 report to the EMI Council) to make the accruals basis optional in monthly euro area statistics. This conclusion recognised that, while some Member States might be unable to record accruals, others might be unable by the start of Stage Three to provide interest flows on a payments basis. In monthly balance of payments statistics, therefore, practice in the euro area is not uniform.

Correctly recording investment income flows in the balance of payments presents other difficulties. To comply with the BPM5, reinvested earnings for any particular year should equal operating profit for that year minus dividends paid in that year. The difficulty is to record reinvested earnings in a timely way, allocating amounts to months and quarters, when operating profits may become available only at lower frequency and well in arrears. In practice, Member States estimate reinvested earnings in current periods from earlier data. Losses are treated as negative reinvested earnings. In the case of collective investment institutions, the WGS decided to attribute the income of the fund to the holders of its shares/units, “looking through” the fund. Portfolio income debits (amounts paid to non-residents of the euro area) present a particular challenge for the same reason that non-resident holdings of euro area securities are difficult to record. Where, as often, the debtor pays interest through an intermediary on presentation of a coupon by the holder of the security, the debtor may not know to whom the money is being paid. In the early part of Stage Three, payments by debtors in the euro area to intermediaries located in the euro area were recorded as payments to residents of the euro area (an instance of the transactor principle). It turned out that this approach substantially understated portfolio income debits in the euro area balance of payments, because the intermediaries were often collecting interest on behalf of non-residents of the euro area; a new method of calculation was introduced in spring 2000, using an approach-by-difference similar to the method of calculating portfolio liabilities in the balance of payments and international investment position.

The (new) balance of payments capital account

As noted earlier, the BPM5 introduced a new terminology: the former capital account was renamed the financial account, and a new capital account was introduced comprising capital transfers and acquisitions and disposals of non-produced, non-financial assets. Current and capital transfers were separated in the balance of payments for the sake of consistency with national accounts in the SNA 93 (and later the ESA 95). The distinction between current and capital transfers depends on the use which the recipient makes of the funds; it may be a difficult distinction for the source of the transfer to make in reporting or compiling balance of payments statistics.

Capital transfers comprise capital transfers by general government (broken down into debt forgiveness and “other”) and by other sectors (debt forgiveness, migrants’ capital transfers, and “other”). Non-produced non-financial assets are such things as patents, leases or other transferable contracts (but not, in general, land or mineral assets). At the time of the July 1996 WGS report to the EMI Council, it was not clear how significant capital transfers would be in the euro area balance of payments. Since users attached no importance to the composition of the new capital account, however, the WGS proposed that it should be compiled as a single amount, without breakdowns, in the euro area balance of payments.

Annex

The statistical treatment of the EU institutions and other bodies

The Community institutions listed in Article 7 of the Treaty (the European Parliament, Council, Commission, Court of Justice, and Court of Auditors) and other Community bodies (the European Investment Bank and a small number of other organisations including the ECB) must be classified statistically. Such organisations are regarded by the ESA 95 as supranational bodies resident in the European Union but not resident in any Member State. The ESA 95 however does not indicate how they might be classified statistically in the sub-group of EU Member States forming the euro area. The WGS concluded in September 1998 that, with the exception of the ECB, to be classified as an MFI resident in the euro area, these organisations should be treated in euro area statistics as resident outside the euro area regardless of their physical location. The conceptual justification for the chosen treatment is that their membership includes countries outside the euro area; indeed, a majority of their members are now outside the euro area following the May 2004 enlargement of the Community. A practical reason is that this treatment is less demanding statistically, an important consideration where accurate data are required to a tight deadline, as in the monthly money and banking and balance of payments statistics, but ECB legal instruments cannot be used to bind the organisations concerned. If all EU Member States participated in the euro area, however, it would be appropriate to treat the EU institutions and other bodies as resident in the euro area. With this long-term possibility in view, the WGS proposed that EU institutions should form a “geographical” category in balance of payments reporting at a later stage, a proposal implemented in the 2003 version of the ECB Guideline on balance of payments statistics, ECB/2003/7.

Like other entities resident outside the euro area, the EU institutions and other bodies, with the exception of the ECB itself, report no data to the ECB or to any euro area central bank. Reporting agents in the euro area record their transactions and positions with these organisations as business with non-residents for both national and ECB statistical purposes (a further convenience of the chosen statistical treatment). Provided the treatment is consistent, it makes no net difference to the euro area balance of payments whether the European organisations are treated as resident in the euro area or not, though credits and debits in current and capital transfers (and possibly the net amounts in these categories, because of asymmetries in recording) and assets/liabilities separately will be different in the two cases. Whether the euro area monetary statistics are different in the two cases depends on whether the European organisations are, or would be, included in the money holding sector. If they were, residence status in the euro area would raise recorded money stock, though the effect would no doubt be small.

Chapter 13

The effective exchange rate of the euro

Purpose and meaning of nominal and real effective exchange rates. Some features of the euro EER.

The ECB has published effective exchange rate data for the euro since the start of Stage Three. At first the ECB reproduced calculations made by the BIS; the ECB published its own calculation, with a similar methodology and producing similar results, from October 1999.

The effective exchange rate is a construct calculated from market exchange rates and existing statistics; no data had to be prepared specially for the purpose. In this respect it differs from most of the statistics discussed in this book. Nevertheless, since it is a statistic prepared and published by the ECB, a brief description of the approach and content may be helpful.

An effective exchange rate calculation in nominal and real terms answers two questions. What unilateral change in the exchange rate of a currency, all other exchange rates held constant, would have the same effect on the economy concerned as any particular combination of exchange rate changes? As an example – what change in the euro, all other exchange rates remaining constant, would have the same effect as a 5% rise in the yen, a 3% rise in sterling, and a 2% decline in the dollar, all against the euro? Or, to take a similar hypothesis: if euro area costs, and all other exchange rates, remain the same, what change in the euro exchange rate would neutralise a 5% rise in Japanese labour costs, a 3% rise in UK labour costs, and an 2% decline in US labour costs? It is such questions that the development of an effective exchange rate (EER) index for the euro, and of a "real" EER (adjusted for relative movements in costs or prices) for the area, set out to answer. Unlike a bilateral exchange rate, the EER is not a price, but is expressed as an index in relation to some base (for the euro EER, the first quarter of 1999).

In reality, to estimate the total effect on the euro area (or any other) economy would have been too difficult. Work on EERs usually focuses on effects on trade flows in manufactured goods, for practical reasons of data availability. Even confining the effect to trade flows is a complicated matter, since in principle substitutability for and complementarity with the products of other countries in world trade, and with their domestic production, should be taken into account. In practice, the euro EER uses weights reflecting bilateral trade in manufactured products in 1995-97 between the euro area and the countries whose currencies are included in the calculation, with a double weight given to exports to allow in an approximate way for competition in markets outside the euro area.[46] There is a "narrow" EER and a "broad" EER, using 13 and 39

[46] The trade weights will be revised every five years, starting in 2004. At the same time all ten new Member States and the accession countries will be included in the broad group.

currencies respectively at the start of Stage Three. The euro EER is affected by any change in the composition of the euro area. Thus when Greece joined the euro area in January 2001, the number of comparator currencies fell by one and Greece was incorporated in the euro area for purposes of calculating trade flows and deflators. The narrow and the broad EERs are also available adjusted for price and cost changes (in domestic currency terms) in the euro area and in the countries whose currencies enter the calculation; in the broad version consumer prices are the only deflator used, for lack of timely, comparable data on other prices and costs for some of the countries included in the broad group.

The euro did not come into existence until January 1999, but an EER for a proxy euro (with a "real" EER for a proxy euro area) was calculated from 1990 ("narrow" EER) and 1993 ("broad" EER), using a basket comprising the currencies of the euro area countries in which the weights of the individual currencies in the basket depend on the share of the relevant country in the total external trade in manufactured goods in 1995-97 of what became the euro area. The result should be regarded as illustrative: since the single monetary policy only began at the start of Stage Three, there is no suggestion that the proxy euro EER represents the behaviour of the euro had it existed earlier.

The same approach is applied to calculate national competitiveness indicators (NCIs) for individual Member States in the euro area. It is clear that any particular set of changes in exchange rates against the euro is unlikely to have the same effect on manufactured trade flows of (for example) Ireland and Portugal. Moreover, while euro area countries cannot experience exchange rate movements against other participating Member States, they can experience changes in competitiveness against each other through price and cost developments, and they may be affected in different ways by price and cost developments in non-participating Member States and third countries. This document is not the place for further description of NCIs, which are not euro area statistics; fuller treatment may be found in an Occasional Paper published by the ECB in February 2002 (*"The effective exchange rates of the euro"*).

Annex

Weights in the ECB's narrow and broad EER indices

Partner countries	Overall weight in the narrow EER index	Overall weight in the broad EER index
Broad group		100
Narrow group	100	69.31
Australia	1.13	0.80
Canada	1.96	1.46
Denmark	3.50	2.58
Hong Kong SAR	3.90	2.06
Japan	15.01	10.10
Norway	1.70	1.33
Singapore	3.50	2.06
South Korea	4.91	2.82
Sweden	6.23	4.35
Switzerland	8.84	6.51
United Kingdom	24.26	18.03
United States	25.05	17.21
Additional countries in the broad group		30.69
Algeria		0.32
Argentina		0.53
Brazil		1.44
China		4.05
Cyprus		0.12
Czech Republic		1.85
Estonia		0.16
Hungary		1.54
India		1.47
Indonesia		0.92
Israel		1.10
Malaysia		1.31
Mexico		0.83
Morocco		0.63
New Zealand		0.20
Philippines		0.42
Poland		2.31
Romania		0.69
Russia		2.38
Slovakia		0.76
Slovenia		0.82
South Africa		0.90
Taiwan		2.15
Thailand		1.22
Turkey		2.07

Source: ECB Occasional Paper no. 2, February 2002

Other economic and financial statistics

Chapter 14

Financial accounts

The nature, role and importance of financial accounts in providing a broad view of financial developments, and a consistency check on the component sources. What these sources were expected to be for quarterly euro area financial accounts. Expected initial limitations. The established use of annual government finance data. The quest for quarterly information on general government.

Quarterly Monetary Union Financial Accounts

Financial accounts record borrowing and lending transactions by economic sectors, and their outstanding borrowing and lending in the form of a balance sheet, with a reconciliation between the two. The catalogue of initial users' requirements (WGS report to the Committee of Governors, December 1992) listed flow (transactions) data for the euro area as "very important", and corresponding balance sheet data as "important"; the data should be quarterly, consistent with the ESA (the ESA 95 was at that time in preparation), and reconcilable with the money and banking statistics for the euro area.

It was quickly realised that the money and banking statistics, where users had requested a sector breakdown of main asset and liability items in the MFI balance sheet, would be a major ingredient in euro area financial accounts. As explained in Chapter 7, the MFI balance sheet statistics were designed to comply with the ESA 95, and had the great advantage for the purpose of euro area financial accounts of requiring sectorisation across the area as a whole. Other inputs would be the securities issues statistics – new issues, redemptions, net issues and outstanding amounts, all broken down by sector of the issuer, though providing no information on holders - and the euro area balance of payments statistics. The latter would have the disadvantage, for financial accounts purposes, of only a limited breakdown of counterpart sectors in the euro area. (The emphasis in balance of payments statistics is on the external nature of the flows, rather than on the euro area sectors involved, and is functional – direct, portfolio or "other" investment – rather than concerned with the instrument detail which is a feature of the financial accounts. Much the same goes for the international investment position as an ingredient in financial balance sheets.) Finally, the ESA 95 requires Member States to compile financial accounts, but only annually and on a national basis (with a distinction between cross-border transactions and positions with other EU countries, though not with the euro area separately, and with the rest of the world). This means that summing euro area Member States' financial accounts is not conceptually the same as compiling financial accounts for the euro area. Nevertheless, the EMI planned to compile financial accounts for the euro area from existing information from these sources, without initially requesting further data or breakdowns to be reported for the purpose. It was apparent that, at least for some time, a full set of financial accounts for the euro area in the detail laid down in the ESA 95 would not be possible. Thus the implementation package noted that *"ESA 95 offers a powerful instrument for achieving consistency in definitions and compilation practices …; and the ECB will be able to compile a fairly full, though incomplete, account with proper consolidation for the single currency area from the money and banking, balance of payments and capital market statistics … It is not considered necessary, or indeed practicable, at present to go beyond ESA 95 (and the monetary, balance of payments and capital markets statistics) in the area of financial accounts."*

The implementation package summarised the purpose of financial accounts as being to complement monetary analysis and policy research. Although the implementation package did not say so, another purpose in compiling them was to monitor and encourage consistency across the areas of statistics contributing to them. A paper by EMI economists in November 1997 stressed the potential value of financial accounts, stocks as well as flows, in monitoring the transmission of monetary policy measures to the economy in the changing financial conditions and structures to be expected in Stage Three. National as well as euro area financial accounts would be of interest. The EMI paper also noted the need for data on government accounts to assess the stance of fiscal policy.

Because of the pressure of more urgent tasks, very little planning for financial accounts had been done in the EMI or discussed in the WGS by July 1996, although users had been consulted over progress with the ESA 95 in summer 1994. It soon also became clear that financial accounts for the euro area could not be available from the start of Stage Three, as users had originally requested, not least because several Member States had derogations under the ESA 95 permitting them to postpone the production of national financial accounts. Indeed, the table on financing and financial investment of non-financial sectors in the euro area (as the restricted form of financial accounts became known) was not considered to be of publishable quality until spring 2001, although unpublished data had been used internally for some time. Since however these data were heralded in the implementation package, the preparations are discussed here in Part A, although the initiative did not bear fruit until early in the third year of Stage Three.

Following up the implementation package, the WGS in November 1996 established an informal group of financial accounts statisticians to begin preparations, in cooperation with the relevant EMI task forces reporting to the WGS and Eurostat's Financial Accounts Working Party. With the prospect of using sources mentioned above, the informal group proposed a three stage approach: annual non-consolidated Monetary Union Financial Accounts (MUFAs), without a breakdown by debtor/creditor sector; then the same but with quarterly flows and end-quarter stocks; then quarterly data with a debtor/creditor breakdown.[47] Quarterly data for the euro area with a debtor/creditor breakdown go beyond requirements of the ESA 95 and the EMI implementation package. The first stage would include an effort to translate euro area b.o.p. and i.i.p. statistics into financial accounts terms. As Chapter 29 in Part B will explain, adapting the b.o.p. and i.i.p. statistics for the purpose was a significant task.

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[47] The financial account of a sector may be consolidated or non-consolidated. Consolidated means that all transactions and positions among institutional units in the same sector are netted out. Non-consolidated means that they are shown gross. Financial accounts with a debtor/creditor breakdown means that a sector's borrowing and lending transactions and positions are broken down not only by instrument but also by sector of counterparty. The SNA 93 calls these "detailed" financial accounts.

The EMI Council agreed in July 1997 that work on MUFAs should be added to the preparatory tasks for Stage Three, and that a new task force reporting to the WGS should be set up. It was subsequently agreed with Eurostat that all work directly concerning MUFAs which did not affect the methodology of the national integrated accounts (which would remain under the leadership of Eurostat) would be the responsibility of the EMI/ECB. All matters of common interest to the EMI/ECB and Eurostat in the area of financial accounts would be discussed in joint meetings of the new EMI Task Force and Eurostat's Financial Accounts Working Party.

In practice, and despite the concerns in some central banks about priorities and the pressure on staff with the necessary expertise, the EMI moved quickly towards compiling quarterly financial accounts data (Stage 2) because of their far greater usefulness for monetary policy. The first national financial accounts data were transmitted to the ECB for MUFA purposes in June 1999 (euro area money and banking and balance of payments statistics were of course already available by then). In the meantime the MUFA Task Force (MUFATF) had explored in a report dated November 1998 the difficult issue of valuation of unquoted shares and other equity with the aim of developing a method consistent with the ESA 95 capable of providing a comparable outcome in Member States, and the ECB had developed a MUFA compilation system. The prototype MUFAs were used as a consistency check in exercises involving securities issues statistics in 2000; the derivation of flows data from MFI balance sheet levels was examined at the same time. Meanwhile the design of a table of financing and financial investment was further advanced, approved by the STC in October 2000 and presented to the Monetary Policy Committee (MPC) later that month, though more data testing was needed before publication in the May 2001 Monthly Bulletin.

Government finance statistics

The implementation package (July 1996) noted that the need to assess convergence of Member States' economies and to apply the Excessive Deficit Procedure had already achieved a high degree of comparability in government finance statistics. Since the EDP would remain in force in Stage Three, the work would continue (from 2000, in the context of the ESA 95). The implementation package concluded: "*No statistical requirements are foreseen beyond what is provided for in ESA 95 (and ESA 79, while it continues in force), and the data notified to the Commission under the Excessive Deficit Procedure.*"

The EMI was already using government finance data[48] for monitoring purposes. NCBs provided detailed tables, using the best and most comparable national data available. These were annual data, notified twice a year by Member States to the Commission: the

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[48] The 1999 tables illustrate what was available at the start of Stage Three. The data are all annual.

Table 1 - General government receipts and expenditure
Table 2 - General government deficit/surplus, borrowing requirement and its financing
Table 2bis - General government borrowing requirement
Table 3 - General government gross consolidated debt at nominal value: structure by instruments and creditor sector
Table 4 - General government gross consolidated debt at market value by tradability (i.e. broken down into traded and non-traded debt)
Table 5 - General government gross consolidated debt at market value by tradability and residual maturity

second (September) notification would include a revised projection for the current year and a revised outturn for the previous year. Member States were not required to provide quarterly data. The quarterly data transmission under the ESA 95, when it came into force, would identify in this area only government final consumption expenditure, though of course other government transactions would be covered indistinguishably in the appropriate national accounts categories.

The question of quarterly government finance statistics arose in the Monetary Committee Working Group on Statistics set up in 1998, which identified them as a priority because *"the achievement and maintenance of sound public finance is of central importance in all Member States and to the success of EMU"* (October 1998 report). The recommendation related to both transactions data and to financial assets and liabilities outstanding. The results would provide an input to quarterly MUFAs, but it was clear that full quarterly general government accounts on a national accounts basis were some years away. The STC's MUFA Working Group, with Eurostat's Financial Accounts Working Party, accordingly began to collect what information was available from Member States, while preparing Community legislation to formalise the provision of data. These developments are further discussed in Chapter 30 in Part B.

A notable omission from the ESA (1979 or 1995 version) is a definition of government receipts and government expenditure. Different approaches, while not affecting the balance between the two, would affect each individually. The ECB tackled this question in 1998 proposing, after discussion at expert level, that general government receipts should include trading receipts of enterprises in the general government sector, while government expenditure should include their outgoings (the alternative treatment counted their net revenues as negative expenditure). The ECB also proposed that transactions with EU institutions through governments should be included in receipts and expenditures of general government, and that the general government should not be "looked through". This gross recording approach, in the ECB's view, would give a more accurate measure of the size of government. The new definitions were subsequently incorporated in Commission Regulation (EC) No 1500/2000 amending the ESA 95 (see further in Chapter 30 in Part B).

Annex

Financial investment and financing of non-financial sectors[49]: main financial assets, and liabilities[50]

Levels outstanding at the end of the period; transactions during the period

Assets

Currency and deposits									Memo: deposits of euro area non-banks with banks outside the euro area[51]
Total	Currency	Deposits of non-financial sectors other than central government with euro area MFIs					Deposits of central government with euro area MFIs	Deposits with non-MFIs[52]	
		Total	Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements			
1	2	3	4	5	6	7	8	9	10

Securities other than shares			Shares [53]				Insurance technical reserves		
Total	Short-term	Long-term	Total	Quoted shares	Mutual fund shares	of which money market fund shares	Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims
11	12	13	14	15	16	17	18	19	20

Liabilities

Loans taken from euro are MFIs and other financial corporations by											Memo: loans taken from banks outside the euro area by euro area non banks[51]
Total	Taken from euro area MFIs	General government			Non-financial corporations			Households[54]			
		Total	Short-term	Long-term[55]	Total	Short-term	Long-term	Total	Short-term	Long-term	
21	22	23	24	25	26	27	28	29	30	31	32

Securities other than shares issued by							Quoted shares issued by non-financial corporations	Deposit liabilities of central government	Pension fund reserves of non-financial corporations
Total	General government			Non-financial corporations					
	Total	Short-term	Long-term	Total	Short-term	Long-term			
33	34	35	36	37	38	39	40	41	42

[49] Non-financial sectors comprise general government (S.13), non-financial corporations (S.11), and households (S.14) including non-profit institutions serving households (S.15).

[50] Most of the financial asset and liability categories defined in the ESA 95 are covered. These are currency and deposits, securities other than shares, loans (except those granted by general government and non-financial corporations), quoted shares, mutual fund shares and insurance technical reserves. Other financial instruments (financial derivatives, unquoted shares, other (than share) equity and other receivables and payables) are not included.

[51] BIS international banking statistics. The BIS definition of banks is close to that of MFIs in the euro area.

[52] Covering deposits of non-financial sectors with central government (S.1311) in the euro area, other financial intermediaries (S.123) and insurance corporations and pension funds (S.125).

[53] Excluding unquoted shares.

[54] Including non-profit institutions serving households.

[55] Including all loans taken by central government from MFIs in the euro area.

Source: ECB Monthly Bulletin, May 2001, Table 6.1

Chapter 15

Consumer prices and general economic statistics

Close EMI interest in the development of a Harmonised Index of Consumer Prices, initially as a convergence measure. Its probable central role in the ECB's monetary policy strategy early recognised. The main measurement issues during the preparatory period. Efforts to secure the wide range of economic statistics required to support the conduct of monetary policy only partly successful.

The Harmonised Index of Consumer Prices (HICP)

The HICP was developed by the Commission in the first place for the purpose of assessing convergence. Article 121(1) of the Treaty calls for *"the achievement of a high degree of price stability; this will be apparent [in the Member State concerned] from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability"*.

The Protocol on the convergence criteria is more specific:

"The criterion on price stability referred to in the first indent of Article 109j(1) [now Article 121(1)] *of this Treaty shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than $1^1/_2$ percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions."*

The task for the Commission was to devise a "*consumer price index on a comparable basis*". The WGS realised that the Commission's work would produce valuable information for monitoring price developments in Member States in Stage Two when the EMI had a duty under Article 2 of its Statute to *"strengthen the co-ordination of monetary policies with a view to ensuring price stability"*. Moreover, although the choice of the Governing Council of the ECB could not be taken for granted, this was the price measure which would probably be adopted by the ECB to monitor the maintenance of price stability in Stage Three, the ECB's primary objective under Article 105 of the Treaty. The EMI therefore took a close and active interest in the Commission's work to establish an HICP.

In the early 1990s, all EU Member States had national consumer price indices, which however varied considerably in terms of coverage (of products and population), definitions and classifications, collection and compilation procedures, frequency and timeliness. Comparison of inflation rates across Member States was imprecise and aggregation scarcely possible. The Commission (Eurostat) set up a working party which met for the first time in June 1993. Shortly before that meeting the WGS had discussed an issues note which considered possible features of an HICP. These would concern uniform definitions for the sub-indices, an index formula (presumably of the base-weighted Laspeyres type), coverage (whole population), and the treatment of seasonal goods and services, of new products and products withdrawn from sale, and of quality changes. Other issues were how to establish and revise the weights and decide the number of prices to be collected, and the type, frequency and period of the survey. Further issues surfaced after the first meeting of the working party: the question of imputed prices, including owner-occupied housing (with the central bank view clearly against the inclusion of mortgage interest payments), the choice of market prices or factor cost, and the frequency of revisions to the weights. The WGS report to the Committee of Governors in December 1993 recognised that work on the HICP in its first six months seemed to be in line with central bank needs. The report drew the Governors' attention to the timetable (the HICP would probably not be available until the second half of 1997, too late for the first convergence reports under Article 121(1) due by end-1996) and also to the reluctance of some Member States to replace national, unharmonised, consumer price indices with (national) HICPs when the latter became available. The WGS feared that rival consumer price statistics would cause confusion. The report showed a preference for omitting imputed prices in the early stages, and for infrequent re-weighting (every five to seven years), apparently on the grounds that consumption patterns are stable in developed economies and fixed-weight indices are easier to use. The report concluded with some "principles":

- a high degree of comparability;
- weights reflecting the pattern of consumer spending in the Member State concerned;
- cost-effective and easily verifiable approaches where possible;
- the possibility for users of recompiling the index to meet their own needs.

The WGS subsequently supported an HICP working party proposal to exclude owner-occupiers' shelter costs from the early stages of the work, and to consider later a measure based on the price of net additions to the housing stock (March 1994).

The issues outlined above were presented to users in a consultation of MPSC, FEPSC and EMI economists in May 1994. The consultation note also explained a new strategy to shorten the gestation period of the HICP by conducting development work and preparing Community legislation in parallel. The consultation produced conflicting views on some issues, notably owner-occupier costs (with some support for rental equivalents, and for separate data on house prices) and the frequency of weight updates. There was general support for basing the index on market prices, but with supplementary information to enable the tax/subsidy element to be identified.

To speed up the availability of essential information, Eurostat proposed to advance in stages. Data in the first stage (to be available by March 1996 at the latest) would not require introduction of definitional changes, but would aim at a limited degree of harmonisation by excluding contentious items which accounted for the main differences among national indices (owner-occupier housing costs, health and educational services and insurance being the most important and difficult). By contrast, the indices would include alcoholic beverages and tobacco, currently excluded from some national CPIs. On balance, though, data in the first stage would sacrifice coverage for comparability and simplicity. This approach was in the spirit of the EMI's reply to a consultation on the draft framework Regulation in March 1995: *"whilst a narrow concept* [covering only prices actually paid, with no imputation] *is almost certainly the most appropriate in the short term due to time pressure, it would be important that the draft Regulation is not construed to preclude the long-term possibility that harmonised imputed prices may be allowed as part of future enhancements"*.

These partially harmonised indices would be available at least back to January 1995. More fully harmonised indices would be available in the second stage from January 1997, and (unspecified) further improvements would be introduced over a period. Following enactment of the Council framework Regulation for HICPs (No 2494/95 of October 1995), the Commission would adopt a series of implementing Regulations to give substance to detailed harmonisation proposals (e.g. on quality adjustment, coverage of the HICP, measures to preserve the quality of the samples, formulae for calculating sub-indices, etc.). The EMI would be consulted on these, in practice after taking into account the views of WGS members and potential users in the EMI and the NCBs. (There is formal provision for consulting the EMI/ECB in Article 5(3) of Council Regulation No 2494/95, and, in Article 105(4) of the Treaty, on all Community acts in the ECB's field of competence.)

The framework Council Regulation (No 2494/95) duly contained these provisions. It stated that *"The HICP shall be based on the prices of goods and services available for purchase in the economic territory of the Member State for the purposes of directly satisfying consumer needs"* (Article 3). A subsequent Council Regulation (No 1687/98) providing for extensions of coverage in the HICP was more explicit than the framework Regulation, reflecting the ESA 95 Regulation (No 2223/96) which had meanwhile been adopted: *"Household final monetary consumption expenditure is defined as that part of final consumption expenditure which is incurred by households in monetary transactions … Prices used in the HICP are purchase prices paid by households to purchase individual goods and services in monetary transactions."* The phased extensions to coverage of the HICP (following introduction of a harmonised index in the second stage in early 1997), though inevitable in the circumstances and in other respects welcome, raised the difficulty of back data. The Treaty in practice required two years' worth of data for convergence purposes, since, with not enough data for reliable seasonal adjustment, the rate of inflation would have to be calculated as the change in the index compared with 12 months earlier, while the Protocol on convergence criteria required the calculation of *"an average rate of inflation, observed over a period of one year"*. For similar reasons the ECB would probably measure the rate of inflation as the change in the index over the latest 12 months. It would be important to use consistent data over the whole period of comparison. This required at least one, and for convergence purposes, two years' worth of back data on the new basis whenever the content of the index changed. When phased extensions to the HICP (to be introduced in December 1997, 1998, and 1999) were discussed in early 1997, Member States resisted any legal obligation to provide back data, to the point at which insistence on a legal obligation would probably have caused the draft Regulation extending coverage to fail. The Commission and the EMI accepted instead an insertion in the Council minutes, without legal effect, expressing an intention to provide back data where possible. The EMI/ECB repeated the need for back data in replies to subsequent consultations, with limited success. In practice there were discontinuities in the HICP in 1998-2000 as a consequence of improvements in the index.

Economic analysis and forecasting also needed comparable back data, and covering a longer period. For this purpose, Eurostat and the EMI, with much help from national statisticians, constructed the best possible proxies for the euro area back to 1991.

A recurrent and controversial issue was the treatment of owner-occupier housing costs (other than maintenance and repair costs, which were not contentious). Reference has already been made to the EMI's concern at their omission. The EMI joined most expert opinion in rejecting the inclusion of mortgage finance costs. The solution which would best relate the HICP to a theoretical measure of consumption, a rental-equivalent approach, had the practical drawback of being difficult to measure in Member States with a small rental sector. (The difficulty of imputing rents in the Member States with a very limited free private market in rented housing possibly lay behind the cautious approach to imputation in the HICP generally.) The practical alternatives were to omit owner-occupier costs (unattractive) or to introduce a measure of house prices (the price of additions to the housing stock, to avoid including in the HICP the prices of existing houses exchanged within the household sector). This was the approach recommended by the HICP working party, initially in 1997, and supported by the EMI/ECB, while recognising that new acquisitions of housing are part of fixed investment in the national accounts and not part of consumption expenditure. There was no commitment, however, to including house prices in the HICP; an index would be developed (desirable in itself), leaving open the question of incorporation in the HICP until experience had been gained with it. It was clear that all this would take some years.

The Commission published an HICP for the future euro area (the MUICP) promptly on announcement of the initial composition of the euro area, combining the national indices with weights proportional to Member States' shares in consumers' expenditure. The Commission also substantially shortened the timetable for producing the monthly HICP. Back data were available from 1995, if not on a fully consistent basis; although not complete, the degree of harmonisation was acceptable. Apart from repairs and maintenance costs, there were thus far no data on the costs of owner-occupation, and the difficult question of adjusting for changes in the quality of goods and services, though the subject of a Commission Regulation setting minimum standards, needed further attention. (Quality adjustment remains the most difficult issue in the area of consumer prices.) Nevertheless, the ECB Governing Council concluded in October 1998 that the HICP was sufficiently good to provide the measure of price stability central to the ECB's policy strategy, namely a year-on-year increase of below 2%. As the only price index sufficiently harmonised across the euro area at the start of Stage Three, the HICP was clearly the most appropriate choice for the purpose. This conclusion had been foreshadowed in the implementation package.

General economic statistics

The July 1995 WGS report to the EMI Council on the statistical field of competence of the ESCB described price statistics and government finance statistics as being of "vital interest" to central banks, because of the main Treaty responsibility of the ECB to maintain price stability, and the close link between government finance and monetary developments. These two areas have already been considered.

As the July 1995 report nevertheless made clear, a much wider range of economic statistics would be essential for analysis and policy: the report mentioned, without further elaboration, statistics relating to orders, production, costs, sales and the labour market. With the exception of INTRASTAT (concerning cross-border trade in goods within the European Union), no European legislation covered general economic statistics, and there was little harmonisation across Member States (the ESA 79 was a voluntary standard). Few indicators were available for all countries. Opportunities for sensible aggregation were limited; where aggregation was possible, results were only available long after the reference period. Like prices and government accounts, these statistics fell within the area of competence of the Commission (Eurostat), and in almost all cases were the responsibility of national statistical institutes at national level. Yet the report said that the ECB must be able to state its requirements as a prime user and also influence the conceptual design of these statistics.

In the following months, the EMI considered further what economic statistics would be needed by the ECB. It was clear that the focus would be on data relating to the euro area. The priority was macroeconomic aggregates, suitable for use in monetary policy analysis. This use required high standards of reliability, without revisions which change the picture in important respects; conceptual soundness (requiring harmonisation where necessary); and high frequency and good timeliness, though not necessarily a great deal of detail. It was also clear that comparable data relating to EU Member States outside the euro area, to the main economies outside the European Union, and indeed national contributions to the euro area aggregates, would also be important.

The WGS presented a first list of (mainly) monthly indicators, excluding national accounts data covered by the ESA 95, in the January 1996 “phasing-in” report to the EMI Council. They fell into four main categories:

- indicators of demand (domestic orders, retail sales, car registrations, surveys of order books in industry and construction, export prospects, etc.);
- indicators of output (industrial production, turnover, business surveys, housing activity, output of services);
- labour market statistics (labour force, employment and unemployment, short-time working, vacancies, new hirings, total hours worked and hours paid at overtime rates);
- indicators on prices and wages (producer, wholesale, and consumer prices, export and import prices, commodity prices, house prices, price expectations, wage settlements, average earnings, unit labour costs).

The list had already benefited from internal discussion in the EMI, and from some exposure to Eurostat and government statisticians. The first full discussions with government statisticians took place at the February 1996 meeting of the CMFB and the March 1996 meeting of the Statistical Programme Committee. In both committees government statisticians urged the EMI to be as specific as possible (and as sparing as possible in the requirements), and to attach priorities to the various needs; their overriding concern was lack of resources in their institutions to implement changes.

The requirements set out in Annex 4 of the implementation package (July 1996) were accordingly more specific, reflecting detailed input from user areas in the EMI. Each item received a priority between 1 (highest) and 4 (lowest), with about 28% having priority 1, and a required frequency and timeliness. While euro area aggregates for many of these items would be a simple sum of national data, in some cases (domestic and export orders; import and export prices) compiling euro area data would require national contributions to distinguish between cross-border business within the euro area and with the rest of the world. In practice, this distinction was not made in the legislation. Many of the items would be covered (or could be – the relevant pieces of legislation were still being prepared) by the proposed Council Regulation on short-term indicators or by Commission proposals to develop further a Community labour force survey and a European labour cost index (work on a labour price index also began but was subsequently suspended in the face of resistance from national statisticians and reservations about the priority it merited). At a second discussion at the June 1996 meeting of the CMFB, shortly before the implementation package was approved by the

EMI Council and released, Eurostat confirmed its plans, and also stated an intention to introduce a pilot collection of data on services. The EMI realised that translating these initiatives into Community legislation would take a long time and might well not provide a satisfactory result by the start of Stage Three. The second discussion in the CMFB again revealed strong misgivings in some national statistical institutes about meeting these requirements in the face of competing claims and diminishing resources, although the EMI stressed that the need was for reliable and timely rather than detailed data, while acknowledging that detailed low-frequency surveys, such as the labour force survey and the structural business survey, would contribute to the quality of higher-frequency conjunctural indicators. Without exception the items listed were the sort of information which central banks conducting a national monetary policy already used; the aim was sufficiently harmonised contributions from all Member States, with the data adapted to aggregation at euro area level where necessary, to good common standards of frequency and timeliness.

To meet immediate and prospective needs in Stage Two, the EMI with the help of the WGS and the BIS pursued a separate initiative. In July 1995, the EMI had circulated a memorandum requesting NCBs to send more national economic statistics promptly to the BIS Databank, giving the EMI (and other NCBs) convenient access to them. These were national data as published; the aim was to ensure quick and convenient access, with adequate documentation of the series. A progress report to the WGS (February 1996) noted significant advances, and suggested trying to improve comparability subject to data availability, especially comparability of series needed for the convergence report due later in the year. A similar approach was in practice adopted by Eurostat when it became clear that the proposed legal instruments could not fully meet the ECB's needs by the start of Stage Three: the "SPC initiative" of autumn 1997, inviting Member States to transmit to Eurostat promptly on release a list of about 50 key macroeconomic series of particular importance to the future ECB, was a variant of this approach.

As successive monitoring reports made clear (see Chapter 4), progress with general economic statistics was a matter of growing concern to the EMI/ECB. Although the Regulation implementing the ESA 95 was duly adopted in June 1996, a change to the draft postponed the first transmission of data to April 1999, about a year later than originally envisaged. This was the worst possible time as far as the EMI was concerned: not only were the new data delayed, but the switch to the new system would probably hold up the provision of economic statistics shortly after the start of Stage Three, and complicate their interpretation. Moreover, the transmission deadlines in the ESA Regulation were too long for the needs of monetary policy. The short-term statistics Regulation was adopted only in May 1998, and included many derogations permitting delayed implementation which would make it difficult to compile comprehensive euro area aggregates for some years. The Regulation on labour cost statistics (a subject of enduring concern to the EMI/ECB) and other improvements to labour market indicators came well after the start of Stage Three.

Data deficiencies in this area gained a higher political profile through an initiative by the French Finance Minister, Mr Dominique Strauss-Kahn, in June 1998. He submitted a paper to ECOFIN drawing attention to shortcomings in economic statistics for the future euro area. In direct consequence the Monetary Committee set up a Working Group on Statistics, in which the ECB participated, to consider statistical requirements for Economic and Monetary Union. Most of the activities of this group and the results of its work came after the start of Stage Three, and are discussed in Part B, but the group's first conclusions, presented in a report to the Monetary Committee dated October 1998, are summarised here as a statement of the main priorities for improvement at the start of Stage Three: quarterly national accounts; public finance, labour market, and short-term business statistics; balance of payments and trade (where the issues were not in general a lack of information, but new approaches and a refocusing of effort in the new circumstances of Economic and Monetary Union). A longer-term consequence of setting up this group was the joint Commission/ECB Action Plan for improvements in EMU statistics presented to the ECOFIN Ministers in September 2000.

Annex

General economic indicators prospectively needed by the ECB *)

		Importance (1 to 4)	timeliness months/ weeks	frequency monthly/ quarterly
A. INDICATORS OF DEMAND				
1. Orders				
Orders received by manufacturing – total		1	1-2 m	m
four main industrial groupings, i.e.				
intermediate goods industry		2	1-2 m	m
capital goods industry		2	1-2 m	m
durable consumer goods industry		2	1-2 m	m
non-durable consumer goods industry		2	1-2 m	m
Orders received by manufacturing – domestic / from other MUMS		1	1-2 m	m
four main industrial groupings		3	1-2 m	m
Orders received by manufacturing – from abroad / from non-MUMS		1	1-2 m	m
four main industrial groupings		3	1-2 m	m
Orders received by the construction sector		2	1-2 m	m
housing		2	1-2 m	m
non residential construction		2	1-2 m	m
2. Domestic trade				
Retail sales		1	1-2 m	m
Data on car sales	(p)	2	1-2 m	m
3. External trade and services				
Imports – total		1	2 m	m
– analysis by commodity groups		2	2-3 m	q
Imports from non-MUMS		1	2 m	m
– analysis by commodity groups		3	2-3 m	q
– analysis by non-MUMS EU countries		2	2-3 m	q
– analysis by Rest Of World (ROW) and major ROW countries		2	2-3 m	q
Expenditure on non-MUMS services, incl. travel		1	2 m	m
Exports – total		1	2 m	m
– analysis by commodity groups		2	2-3 m	q
Exports – to non-MUMS		1	2 m	m
– analysis by commodity groups		3	2-3 m	q
– analysis by non-MUMS EU countries		2	2-3 m	q
– analysis by Rest Of World (ROW) and major ROW countries		2	2-3 m	q
Receipts from services to non-MUMS		1	2 m	m
4. Business / Consumer opinion serveys	**(p)**			
industry				
– opinions on new orders		2	1-2 m	m
– opinions on order books		2	1-2 m	m
– duration of assured production		2	1-2 m	m
– opinions on stocks of intermediate / finished products		3	1-2 m	m
– opinions on investment trends		3	1-2 m	q
– export expectations		2	1-2 m	m
construction				
– opinions on order books		2	1-2 m	m
– duration of assured production		3	1-2 m	m
consumer confidence indicator		2	1-2 m	m

Source: Implementation package, July 1996, Annex 4

		Importance (1 to 4)	timeliness months/ weeks	frequency monthly/ quarterly
B. INDICATORS OF OUTPUT				
1. Production				
Industry (NACE Rev. 1 C – E)		1	6-8 w	m
Manufacturing (NACE Rev. 1 D)		1	6-8 w	m
four main industrial groupings		2	6-8 w	m
Mining (NACE Rev. 1 C)		3	6-8 w	m
Energy (NACE Rev. 1 E)		3	6-8 w	m
Construction (NACE Rev. 1 F)		1	6-8 w	q
2. Turnover				
Industry (NACE Rev. 1 C – E)		3	2-3 m	m
Manufacturing		3	2-3 m	m
national turnover		4	2-3 m	m
total export turnover		4	2-3 m	m
Construction		3	2-3 m	q
3. Stocks in industry		2	6-8 w	m
Materials / Work in progress / Finished goods		3	6-8 w	m
4. Business opinion surveys	**(p)**			
Manufacturing				
production trend in recent months		1	1-2 m	m
production expectations		1	1-2 m	m
capacity utilisation		1	1-2 m	q
– analysis by intermediate, capital and consumer goods		3	1-2 m	q
Construction				
trend of activity		2	1-2 m	m
4. Housing				
Building permits	(d)	2	2 m	m
Housing starts	(d)	2	1-2 m	m
Housing completions	(d)	2	1-2 m	m
5. Output of services		2	1-2 m	q
– analysis of main items		2	2-3 m	q
C. LABOUR MARKET				
1. Total economy				
Total labour force		1	3 m	q
Total employment		1	3 m	q
– analysis by sectors of the economy		2	3 m	q
Wage and salary earners (employees)		1	3 m	q
Unemployed	(d)	1	1 m	m
– analysis by duration, age and sex	(d)	3	3 m	q
Short time workers (where available)	(d)	2	2 m	m
Vacancies	(d)	2	2 m	m
New hirings	(d)	3	3 m	q
2. Manufacturing				
Employees		2	2 m	q
Total hours worked		2	2 m	q
Hours paid at overtime rates		3	2 m	q
Employment expectations (business opinion survey	(p)	2	1-2 m	m
3. Services				
Employees		2	2-3 m	q
Total hours worked		2	2-3 m	q

		Importance (1 to 4)	timeliness months/ weeks	frequency monthly/ quarterly
D. PRICES AND WAGES				
1. Prices				
Raw material (commodity) prices	(p)	1	1 m	m
Export prices				
– unit values		1	2 m	m
– unit values (vis-à-vis MUMS, other EU and ROW)		2	2-3 m	m
– export price indices		3	1-2 m	m
Import prices				
– unit values		1	2 m	m
– unit values (vis-à-vis MUMS, other EU and ROW)		2	2-3 m	m
– export price indices		3	1-2 m	m
Input prices in manufacturing		3	1-2 m	m
Producer prices of industrial products		1	4-6 w	m
energy		2	4-6 w	m
intermediate goods		2	4-6 w	m
capital goods		2	4-6 w	m
consumer goods		2	4-6 w	m
Wholesale prices		3	2 m	m
Construction prices		1	1-2 m	q
House prices – new		2	2 m	q
House prices – second hand		2	2 m	q
Price expectations (opinion surveys)	(p)			
– households		2	1-2 m	m
– industry		2	1-2 m	m
– financial market operators		2	1-2 m	m
2. Wages				
Wage settlements				
– total		2	6-8 w	m
– by sectors of economy		3	6-8 w	m
Average earnings				
– total		1	6-8 w	m
– by sectors of economy		1	6-8 w	m
Employment of economy		2	2 m	q
Unit labour cost				
– total		1	2-3 m	q
– manufacturing		1	6-8 w	m
– other sectors		2	2-3 m	q

*) Not included in this table are the following other statistics important for monetary policy purposes: money and banking, balance of payments (except external trade and services), national accounts, financial accounts and other financial statistics, government finance statistics and consumer price indices.

Explanations:

importance:

1 – essential
2 – important
3 – important supplementary statistics
4 – useful background information

other symbols:

(d) – derived statistics / administrative data
(p) – statistics partly compiled by private institutions

Other statistical issues

Chapter 16

Accounting issues

Starting point: the wide variety of national accounting practices in commercial banks and EU central banks. Non-coercive attempts to encourage standard practices consistent with statistical needs in commercial banks. Development (with involvement of statisticians) of an accounting framework and standards for the ESCB. The link between the Eurosystem financial statement and statistical reporting.

Developing statistical requirements for Stage Three focused on defining a monetary sector and on the data items needed from reporting agents or NCBs, whether for money and banking statistics, balance of payments, or other purposes. However, the accounting conventions followed in reporting these items are also important. These concern matters like valuation practices, the extent to which items are netted off against each other, and how write-offs and write-downs of loans are treated. Current practices followed national accounting rules which differed among Member States, though the Bank Accounts Directive (86/635/EEC) had brought a degree of uniformity. The BAD however is concerned with statutory accounts and supervisory needs, not with statistical needs; it often conflicts with international and European statistical standards, and may not give unambiguous guidance or indeed any guidance at all on accounting questions that are important for statistics. At the very least it was necessary to identify current accounting practices in Member States. A prescriptive approach could be confined to cases where only uniform practice among reporting agents could provide good statistics at euro area level. Where adjustments to the reported data could sensibly be made at the compilation stage, it would be necessary to provide guidance to NCBs in compiling national contributions to the euro area aggregates.

The WGS examined accounting standards in two reports to the EMI Council dated January 1996. The reports concerned respectively accounting rules underlying (commercial) banks' balance sheets, and accounting rules underlying NCBs' balance sheets, already under consideration in the Working Group on Accounting Issues. NCBs would form part of the future MFI sector and their end-month statistical returns should conform to the statistical standards set for the MFI sector as a whole, and at the same time be consistent with the weekly financial statement of the Eurosystem, not least because these returns would relate to the same date several times a year, and so would be directly comparable.

The main aspects of national accounting practices in (commercial) banking statistics with relevance for the compilation of euro area aggregates fell into five categories: double-counting of balance sheet items, valuation, coverage of the balance sheet, netting, and classification. Double-counting of balance sheet items (or indeed omissions) could occur where banks booked cross-border transactions at different times (for example, one on the contract date and one on the settlement date); and where banks followed different approaches in recording repos and other reversible transactions, or in the treatment of transit items. In these cases, different practices might produce coherent national statistics, but not coherent euro area aggregates compiled by adding up national contributions, where consistent and symmetrical treatment was clearly necessary. Valuation practices differed (and, while the ESA 95 recommends market valuation for traded instruments, the BAD also permits or encourages purchase price or redemption value depending on circumstances). Coverage of the balance sheet concerns among other things the treatment of fiduciary loans, of banks' holdings of their own acceptances, and of securities lent from safe custody accounts. Netting includes the treatment of accrued interest (which might be allocated to the instrument on which it accrues, shown gross on both sides of the balance sheet, in "other" assets or "other" liabilities, or shown as a net amount in one or the other); and netting of liabilities against claims (where the ESA 95 recommends gross reporting wherever possible, but the BAD allows netting where a legal right of set-off exists). The only classification issue identified concerned finance leases, classified as "lending" in some countries and as "other assets" or as "fixed assets" in others. The ESA 95 treats finance leases as lending, whereas the BAD does not say how they should be classified, but requires the amount to be noted.

The report on (commercial) banks' accounting practices concluded that most differences could probably be overcome by rearranging existing balance sheet data, or requiring additional information or breakdowns. A manual setting out recommended practice would be needed. Valuation of certain balance sheet items would however remain a difficulty.

For the start of Stage Three, the EMI/ECB chose to deal with differences in accounting practices in various ways. (As noted in Part B, reporting requirements were subsequently amended in some respects.) In money and banking statistics, Regulation ECB/1998/16 stated that *"without prejudice to the prevailing accounting practices in Member States, all assets and liabilities are to be reported on a gross basis for statistical purposes"* (Annex 1, Part 3); in other words, gross reporting unless national accounting practices indicated otherwise. The Guideline concerning money and banking statistics (ECB/1998/NP27), addressed to the Eurosystem and not directly to other MFIs, requested certain information as memorandum items if available (interest accruals, transit items, suspense items) (Annex 2). Concerning the derivation of flows, Annex 3 of the Guideline recognised that accounting rules differ and that relevant information may be incomplete or missing, and provided guidance on how to approach valuation adjustments and write-offs/write-downs. The fullest guidance, however, was to be found in the money and banking statistics compilation guide, the version dated April 1998, with an addendum in September 1998 on the treatment of money market paper and bill-based lending, being the version current at the start of Stage Three. The compilation guide contained sections on over 40 accounting and classification issues. It made statements of principle, e.g. *"loans … should be recorded gross of all related provisions, both general and specific, until the loans are written off … at which point [they] are removed from the balance sheet"*; *"finance leases are treated as loans from the lessor to the lessee"; "loans/deposits should in principle be presented on a gross basis"*; *"interest … should be recognised on-balance sheet as it accrues … under the categories remaining assets/remaining liabilities"*; *"asset and liability positions … should be presented at current market values"*. However, the compilation guide recognised that these ideals may not be met: thus *"However, … reporting agents may continue to use alternative valuation methods … in accordance with local accounting rules … Where reported values differ substantially from market values … for policy-sensitive items,* *NCBs should consider … removing these distortions by … adjustments”*. In the field of balance of payments and international investment position, the implementation package (July 1996) stated the principle of conformity in quarterly and annual statistics to the BPM5, which all Member States had accepted, and gave specific instances in which departures from the BPM5 would be accepted in the monthly statistics for practical reasons. These mainly concerned interest accruals – in monthly statistics, either the accruals or the payments basis would be acceptable – and recording on a transactions basis. The Guideline (ECB/1998/17) made this point clear in Annex 1, where it also stated that *“The international investment position shows financial stocks at the end of the reference period, valued at end-period prices* [consistent with the BPM5 recommendation of market prices] … *However … specific rules may be applied for the valuation of equity capital in direct investment, notably in the case of unquoted shares”*. Annex 3 recommended that “genuine” repurchase agreements (where there is an obligation to take back the securities on expiry of the agreement and not merely an option to do so), sell/buy-back transactions and bond lending should be recorded as collateralised loans and not as transactions in the securities concerned. The principle of compliance with the BPM5 (with limited, unavoidable, exceptions) was further stated in the ECB’s publication *“European Union balance of payments statistical methods”*, which set out the main features of euro area statistics and described current national practices. At the start of Stage Three, the version of this publication dated August 1998 was current.

The WGS report on accounting issues in central bank balance sheet statistics noted some of the same sources of difference. Here potential distortions fell into three categories: valuation differences; the double-counting (or omission) of items arising from cross-border transactions; and differences in netting practices. Various valuation practices were in use in central banks at the time of the report (market price, historic cost, the lower of the two), and the frequency of revaluation, where carried out, varied. The report concluded: *“A significant loss of comparability in the statistics will arise from the inconsistencies in the timing of conversion of foreign currency-denominated balances and also from the use of different principles to value gold, foreign securities and EMI swap positions on a weekly (monthly) basis.*” NCBs also followed different approaches to the valuation of domestic assets and liabilities in the balance sheet (issue/purchase price, market price, redemption price, including or excluding accrued interest). Double-counting (or omission) of items seemed unlikely to be a source of inconsistency, since NCBs were (or would be) mostly involved in large-value business for settlement the same day. Netting concerned the treatment of accrued interest (recorded gross in “other” assets or liabilities by most NCBs) and unrealised capital gains and losses (treated the same way in most NCBs). The report concluded that important distortions could arise from different valuation practices, the main source of difficulty, and that the WGS, in consultation with the MPSC, should seek ways to ensure that the accounting framework under development by the WGAI, and additional information where necessary, satisfied statistical needs so far as possible.

It might be noted here that Guidelines concerning money and banking statistics (ECB/1998/NP27) and b.o.p. and i.i.p. statistics (ECB/1998/17) applied to the NCBs’ (and the ECB’s) reporting of their own balance sheets and transactions as well as to NCBs’ transmission to the ECB of data reported to them by resident MFIs and other reporting agents. The references in the Guidelines to accounting matters mentioned above therefore relate also to Eurosystem reporting.

As early as February 1996, the EMI adopted an approach to ESCB annual accounts based on market valuation. A close cooperation between the WGS and the WGAI (and between EMI statisticians and accountants) began in September 1996 when the WGAI consulted the WGS regarding the development of accounting principles, techniques and formats for the ESCB. The WGS considered proposals for an accounting system from the perspectives of the layered approach (the architecture of the proposed MFI balance sheet reporting, including derivation of flows, described in Chapter 6), the ESA 95 and the BPM5, and with the aim of consistency across reporting frequencies, while recognising that an identical approach across the ESCB was probably unrealistic in the early part of Stage Three. The WGS nevertheless stressed the importance of compatibility, within the ESCB and with balance sheet data submitted by other MFIs, in the interests of meaningful aggregation. While many points of detail arose, the WGS was able to support the WGAI's ideas on valuation, accruals and timing of recording of transactions, though the proposed treatment of unrealised gains and losses was not compatible with statistical standards. The MPSC and FEPSC in their replies also gave broad support to these ideas.

Many detailed points about the content of ESCB reporting were examined in 1997; the final result for the start of Stage Three was the set of bridging tables which form Annex 1 to Guideline ECB/1998/NP27. They link the ESCB's financial statement to the monthly and quarterly statistical returns submitted (as MFIs) by the ECB and NCBs. By mid-1997 the only important accounting issue outstanding was the frequency of revaluation in line with market prices and exchange rates: while the WGS sought monthly revaluation for statistical purposes, the WGAI proposed the quarterly frequency which it intended to adopt for financial reporting purposes. Thus at the start of Stage Three, and for some time afterwards, the Eurosystem's balance sheet data only reflected market values quarterly. Although the NCBs provided back data from September 1997, these were not based on uniform accounting rules, which did not take effect until January 1999.

Annex

The Eurosystem financial statement and the Eurosystem contribution to MFI balance sheet and b.o.p. and i.i.p. statistics

Article 15.2 of the Statute requires the ESCB (in practice, the Eurosystem) to publish a consolidated financial statement each week. The statement relates to the Friday and is usually published on the following Tuesday. The financial statement emphasises the items that are most important in a central bank's balance sheet, reflecting the impact of policy and market operations.

The ECB and the Eurosystem NCBs also complete monthly and quarterly statistical returns as members of the MFI sector, and contribute to b.o.p. and i.i.p. statistics. In the preparations for Economic and Monetary Union, effort was devoted to making the financial statement and the statistical returns consistent, in order to minimise duplication of effort and risk of error, and to avoid public confusion owing to publication of different data for what might appear to be the same thing. The harmonised accounting rules underlying the Eurosystem's financial statement set out in the Guideline on the legal framework for accounting and reporting in the ESCB (December 1998, first published, as subsequently amended, as ECB/2000/18)[56] are largely the same as those adopted for statistical reporting, the main exceptions being that Eurosystem members are required to revalue their balance sheets quarterly (not monthly) in the financial statement, and that some items to be reported gross in the one are reported net in the other.

The links between the components of the Eurosystem's consolidated financial statement and the monthly and quarterly MFI returns (and, where relevant, the reserve assets category in the balance of payments and international investment position) are set out in the detailed bridging tables in Annex I of Guideline ECB/1998/NP27 and its successors.

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[56] The version in force at the end of 2003 was ECB/2002/10.

Chapter 17

Back data and seasonal adjustment

Euro area data relating to the time before Economic and Monetary Union a necessity, despite reservations about quality. Apparent that a similar need would arise with future enlargements of the euro area. Much reliance on estimation. The question of how to aggregate pre-1999 data, and how to express the result. The approach to seasonal adjustment, recognising the limitations of the underlying data.

Although the policy regime after the start of Stage Three would differ from that in place beforehand, and the formation of the euro area would itself constitute an important structural change, it was also clear that in practice data covering what was to become the euro area would be needed for periods before 1999 for purposes of policy planning and economic modelling and forecasting. The question of how to construct such data was first discussed in the WGS in October 1995. There were two main aspects to this: how to make earlier data comparable to the new data in preparation for the euro area, in terms of conceptual definitions, coverage, etc., and how to aggregate national data to form proxy euro area totals. It was recognised that no completely satisfactory solution would be found for either aspect of the problem, and indeed that the results could never represent developments in the euro area as it would have been if Stage Three had started earlier.

For many types of macroeconomic data, Eurostat had already tackled the problems of comparability in compiling EU aggregates for national income and expenditure components, labour market statistics, foreign trade and other areas of macroeconomic statistics. The task was eased by the widespread adoption of international or European standards, although the introduction of the ESA 95 and the new IMF Balance of Payments Manual (BPM5) unavoidably introduced some breaks in series.

Monetary and balance of payments statistics presented a particular aggregation problem. As explained earlier, money stock and the balance of payments of the euro area are not a simple sum of national aggregates, even if these are closely harmonised: money stock in the area exceeds the sum of national aggregates; while the balance of payments of the area excludes cross-border transactions within the area, which are however recorded in national data. To compile monetary and balance of payments statistics for a pre-1999 proxy for the euro area required not only sufficiently comparable data but also, for each participating Member State, a geographical breakdown of cross-border business between business with residents of countries which were to form the euro area and business with residents of all other countries. For the most part, Member States did not have such data. For monetary statistics, BIS international banking data offered a partial solution, limited by many consistency problems (different institutional coverage from the MFI sector, restricted instrument coverage which did not coincide with any likely definition of broad money in the euro area, and other features of the data suggesting valuation or recording differences). For many items in the balance of payments a sufficient geographical breakdown was not available for most countries.

The implementation package recognised the difficulty of constructing back data, but also expressed a strong need for monetary data for at least a year before the start of Stage Three. Since there might be a target for monetary growth, and the choice of target was likely to be made in autumn 1998 using information on monetary growth in (at least) the previous 12 months, the implementation package required the best possible estimates of MFI balance sheet data monthly from September 1997, to be available by mid-1998 (in the event the timetable slipped somewhat). In practice most NCBs in the euro area managed to provide estimates on a good approximation to the new MFI statistics for several years back, and – also using the building blocks exercise undertaken originally to collect comparative information about national banking and monetary statistics – the ECB published in the February 1999 Monthly Bulletin a monthly M3 series covering what became the euro area back to 1980. (The building blocks exercise had already enabled the EMI to publish in December 1997 *"Available information on the balance sheets of the money-creating sector"*, with national data and EU aggregates back to 1993. A complementary exercise, "mapping" the forthcoming new implementation package data into the current national data, followed in the early part of 1998.)

For the balance of payments, the problem was more intractable but also less important, in the sense that the balance of payments would clearly not be an intermediate policy objective or a policy indicator. An estimate of the balance of payments of the future euro area could be obtained by adding up the net national balance of payments statistics, on the assumption that (unknown) cross-border transactions within the area would cancel out. Since, however, comparison of bilateral data where available, and experience with the INTRASTAT system for measuring trade in goods within the European Union, suggested that the assumption was not valid, this approach could be expected to give only a very rough estimate, perhaps useful for detecting large changes but not otherwise. In practice, it proved possible to construct reliable balance of payments statistics for the euro area only as far back as 1997. For compelling practical reasons but with similar reservations, the end-year international investment position was compiled on a net basis for lack of geographical breakdowns until 2002, when gross data were published for year-ends 1999-2001.

The implementation package recognised that the difficulty of compiling back data would arise whenever the composition of the euro area changed, and was not therefore a one-off problem created by the formation of Economic and Monetary Union. A full solution would not only require all entities in potential new entrants to the euro area to identify cross-border business with the euro area, but also to do the same for business with each other, and within that for each separately. Entities in the current euro area countries should also record separately business with each of the potential new entrants. Sectoral and currency breakdowns would add further dimensions. Given the number of countries involved – any combination of the 15 EU Member States might conceivably have formed the euro area in 1999, and any of the present non-participating Member States (which as at May 2004 now number 13) may join the euro area in the coming years – the implementation package recognised that provision of full information would be too burdensome, and that good estimates based on available sources would have to be accepted.

Given the availability of national data suitable for aggregation and relating to periods before 1999, the question arose regarding the currency in which data relating to dates or periods before the euro came into existence should be expressed. Ease of comparison with 1999 and later data suggested a numéraire which would easily link with the euro.

However, two distinct types of need were apparent, which no single solution would simultaneously satisfy. One was for series which preserved the characteristics of the original national currency series. Monetary series for use in research into demand for money, formation of inflationary expectations, etc. would be an example. It seemed natural to convert national currency series into "euro" for this purpose at the exchange rates irrevocably fixed on creation of the euro area. Earlier national currency data would then be multiplied by a constant (albeit a different one, of course, for each currency), yielding back series which would glide smoothly into the euro-denominated data for the same country from January 1999. A feature of this approach, however, is that cross-country comparisons, or aggregations across countries, in earlier periods are distorted where there have been substantial intervening changes in exchange rates. For example, this approach will understate the early data of a country which in the meantime has experienced depreciation of its currency, as some possible members of the euro area did in the early 1990s. For cross-country comparisons over time, or for aggregations across countries, it would be better to convert national currency series into a common numéraire at market exchange rates of the time. But what numéraire? For presentational reasons and convenience of use, the ideal choice would be a single currency or a basket which over the relevant period had displayed the characteristic required of the euro, namely a high degree of domestic price stability. The choice of a national currency, whether or not of a country likely to join the euro area, was considered to be presentationally difficult. So was a basket of currencies of some, but not all, of the Member States forming the euro area, while a basket of all of them (an "EMU basket") would include currencies with some earlier history of inflation and depreciation and would be little if any better in that respect than the ECU. The Commission intended to retain the ECU as numéraire for pre-1999 data in its own publications. In addition to avoiding confusion to users comparing ECB and Commission sources, use of the ECU as numéraire had other practical advantages: it was not dependent on the composition of the euro area, thus facilitating advance preparations; similarly it would avoid the question of amending the numéraire to reflect later changes in the composition of the euro area, whereas there might be pressures to amend an "EMU basket"; and, following decisions taken by the Madrid European Council in December 1995, the euro would be fixed at the start of Stage Three such that EUR 1 = ECU 1, thus avoiding a break in statistical series at end-1998 or the need to recalibrate all earlier data. Accordingly the WGS concluded discussion of this matter in a final "opinion" dated May 1998, which recommended using in the conversion of national currency series relating to dates or periods before 1999, either

a) the irrevocably fixed exchange rates determined on 31 December 1998, immediately before the euro area was formed;

or

b) current market rates against the ECU. Series obtained in this way should be described as ECU series, not as euro.

Market rates for the national currencies of Member States entering the euro area against an "EMU basket" were made available by the EMI/ECB, but no use was made of such series by the EMI/ECB in published statistics, to avoid confusion.

Nevertheless it was clear that there were limits to the use of the ECU as numéraire. The behaviour of earlier nominal (current price) series expressed in ECU would reflect the inflationary behaviour of some constituent currencies. It would not be appropriate to derive a deflator series by dividing aggregated current price GDP series converted into

ECU at current market rates by a constant price GDP series. Indeed costs, prices and national accounts deflators are an example of series where it is usually best and least misleading to keep the characteristics of the original national currency data. The ECB's approach in published statistics of prices and costs in the euro area before the start of Stage Three has been to use a weighted average of national price or cost inflation rates. This approach captures the experience at the time, whereas use of a numéraire tends to conceal it.

Thus the ECB uses three approaches for different purposes: conversion into a proxy euro at the irrevocable fixed exchange rates; conversion into ECU at market exchange rates at the time; and a weighted average of percentage changes in national series.

A related question arises when the composition of the euro area changes. How should monetary growth, inflation, or GDP in the euro area be measured across the point of enlargement? This question is particularly important where the ECB may be held accountable for developments (notably in prices and monetary growth) in the euro area as it was constituted when the developments took place. The approach is to ensure that so far as possible, statistics reflect the composition of the euro area at the time. This is straightforward for balance sheet data and other items recorded as amounts outstanding, but less so for growth rates across the point of enlargement, where however chain-linking approximates to the required result.

This approach is appropriate for reference statistical series, some of which may be used when assessing accountability. However, it is clearly not suitable for all purposes. Economic forecasts, for example, may be better based on outturn data for the euro area in its present composition, not as it was constituted at the time to which the outturn data relate. Accordingly the ECB and Eurostat have compiled statistical series for the euro area plus Greece relating to dates and periods before January 2001.

Only problems likely to arise when the euro area was first formed were discussed in detail in the preparation and implementation phases, though the implementation package recognised that future changes in the composition of the euro area would give rise to data problems and transitional issues similar to those arising in the run-up to Stage Three. Although the first enlargement did not occur until 2001, it is convenient to discuss the issues here because they are similar to the transitional problems in 1998.

Seasonal adjustment of euro area statistics

Some years' worth of reliable data are necessary for the size of seasonal influences on a series to be estimated and allowed for.[57] No ECB statistics were seasonally adjusted at the start of Stage Three, for lack of back data. Nevertheless, preparatory work began well before the start of Stage Three, in order to be ready when sufficient data (including sound estimates for earlier years) became available. For the monetary aggregates, it was possible to publish seasonally adjusted euro area aggregates for the first time in June 1999; seasonally adjusted estimates for the HICP followed in January 2001, and for the balance of payments current account of the euro area in July 2001.

The aim here is to describe briefly the approach in the preparatory period. The purpose of seasonal adjustment is to identify and remove recurrent influences on statistical series

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[57] For monthly data, five years' worth for robust results; if the seasonal pattern is pronounced, three years' worth may suffice.

which arise from normal seasonal variations in the weather, and also from periodic events which follow the calendar although not necessarily at precisely the same time each year (Christmas, New Year, Easter, the main summer holidays). A related matter is allowing for the number of working days in a month or quarter, and perhaps also for the day of the week on which the reporting period ends or the reporting date falls.

If seasonal influences remain in the series, underlying developments may for that reason alone be hidden. Where seasonal influences may be present but the data are insufficient to identify them, the natural approach is to look at changes over a 12-month period, and ignore changes over shorter periods. In doing so, however, the analyst may miss turning points in a series; moreover, 12-month changes may themselves be distorted by seasonality, because seasonal events may not follow the calendar strictly. If there is a well-established seasonal pattern, there is a good case for removing it.

There are two broad approaches to seasonal adjustment at European level. The first is to add up unadjusted national data and seasonally adjust the total (the "direct" method). The second is to seasonally adjust the national data, using a standard technique, and add up the results (the "indirect" method). Either approach may be valid. The ECB uses the first to arrive at euro area aggregates (though it uses an indirect approach to seasonally adjust components and totals), but the second has the advantage that national contributions to the data can more easily be viewed in the context of the seasonally adjusted aggregate. Before the start of Stage Three, Eurostat was already publishing some seasonally adjusted economic series at European level. Where Member States had transmitted seasonally adjusted data, the legislation on short-term statistics (Council Regulation (EC) No 1165/98) required Eurostat, if it wished to publish national seasonally adjusted data, to reproduce those provided by the Member States, even if these used a variety of seasonal adjustment techniques.

Eurostat convened a meeting in October 1996 to discuss approaches to seasonal adjustment with the EMI, all EU government statisticians, and most EU central banks. A survey of NCB practices had shown that all EU central banks which responded used X-11 or a variant of it (X-11 was developed by the US Bureau of the Census and was widely used for seasonal adjustment; the Bureau of the Census was at the time developing new improved software, which was not yet however on general release). The only serious alternative was TRAMO/SEATS, recently developed by Professor Maravall in the Banco de España. Despite good features, TRAMO/SEATS had the disadvantage that it was much less widely used and less well supported, an important consideration for a production system.

While a Eurostat task force continued to work on seasonal adjustment, the WGS did not return to the subject until the start of Stage Three, and then moved quickly. A joint ECB task force on seasonal adjustment (with Eurostat participation) was invited in February 1999 to prepare proposals for the seasonal adjustment of monetary aggregates and the HICP. The task force was also asked to assess ECB user needs for seasonally adjusted macroeconomic data, how these were met (where they were met), and what improvements might be made; to examine the properties of X-12 ARIMA (the development from X-11) and TRAMO/SEATS; and to consider how a standard seasonal adjustment software program might be implemented and maintained at the ECB. An advantage of the delay was that sufficient back data of an acceptable standard for monetary aggregates and the HICP were becoming available by 1999. Well before the task force produced its final report in January 2000, conclusions were clear enough to permit seasonal adjustment of the monetary aggregates, performed at euro area level (i.e.

not by seasonally adjusting the national contributions) by aggregating the seasonally adjusted euro area components of broad money. The result is that seasonally adjusted components add up to seasonally adjusted M3, but the euro area result cannot easily be related to developments at national level. Seasonally adjusted estimates of lending (MFI loans to “other” euro area residents excluding government) were published later, as were (as noted above) the euro area HICP and current account balance of payments, using a similar approach of adding together components seasonally adjusted at euro area level. (The ECB also seasonally adjusts some other series for internal use in the absence of Eurostat seasonally adjusted data.)

Seasonal factors are revised annually or as required. The published results use X-12 ARIMA, but the ECB also estimates seasonal factors using TRAMO/SEATS. As proposed in the report of the task force, and supported by the Banco de España (to which TRAMO/SEATS was assigned in 1999), work has meanwhile been carried out in the US Bureau of the Census and in the Banco de España to combine features of the two systems.

Legal preparations

Chapter 18

The legal framework

The legal basis for ECB statistics described and explained. The Treaty and Statute. The importance of "complementary" Community legislation (Council Regulation (EC) No 2533/98) in setting the conditions for ECB statistical work. ECB legal instruments giving substance to statistical requirements. Some difficult issues encountered in preparing the legislation - *confidentiality and the multi-purpose use of data, obligations of EU Member States not participating in Economic and Monetary Union, minimising reporting burdens subject to meeting requirements.*

The legal framework concerning EMI/ECB statistical activities

The legal structure concerning EMI/ECB statistical work may be summarised as follows:

- The Treaty establishing the European Community (as amended by the Treaty on European Union) provides for a statistical role for the EMI (in Article 117(3) and in Article 4 of the EMI Statute), and for the ECB in Article 5 of the ESCB/ECB Statute.
- Council Regulation (EC) No 2533/98 defines certain limits and conditions concerning ECB statistical activities, as required by Article 5.4 of the Statute.
- ECB legal instruments (adopted under Article 34 of the Statute) give substance to the ECB's statistical requirements within the terms set by Regulation No 2533/98.

The Treaty establishing the European Community (as amended)

As noted earlier, Article 117(3) of the Treaty charged the EMI with a statistical task:

"*For the preparation of the third stage, the EMI shall… promote the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its field of competence.*"

These words are repeated in Article 4 of the EMI Statute.

Thus harmonisation had a particular importance. It was to be done (only) "where necessary", but related to all stages in the statistical process; and the harmonising activity was to be confined to the EMI's "field of competence", the identification of which is the subject of Chapter 21. This restriction did not however prevent the EMI from taking a close interest in statistical work relevant to the ESCB's functions but judged to be outside the area of competence.

The statistical activities envisaged for the ECB, and the manner in which the ECB should approach them, are set out in Article 5 of the Statute of the ESCB and of the ECB:

"Collection of statistical information

5.1. In order to undertake the tasks of the ESCB, the ECB, assisted by the national central banks, shall collect the necessary statistical information either from the *competent national authorities or directly from economic agents. For these purposes it shall co-operate with the Community institutions or bodies and with the competent authorities of the Member States or third countries and with international organisations.*

5.2. The national central banks shall carry out, to the extent possible, the tasks described in Article 5.1.

5.3. The ECB shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence.

5.4. The Council, in accordance with the procedure laid down in Article 42, shall define the natural and legal persons subject to reporting requirements, the confidentiality regime and the appropriate provisions for enforcement."

Some remarks can be made concerning these provisions:

- Article 5 applies to all EU Member States; it is not one of the Articles listed in Article 43.1 of the Statute as not applying to Member States with a derogation, i.e. those not participating in Stage Three of Economic and Monetary Union.
- *"In order to undertake the tasks of the ESCB …"*. This has been understood to mean any or all of the tasks listed in Article 105 of the Treaty and Article 3 of the Statute, including those which may require statistical information relating to individual economic agents.
- *"the ECB, assisted by the NCBs, shall collect the necessary statistical information … The NCBs shall carry out, to the extent possible, the tasks described in Article 5.1.*" Thus, while the NCBs "assist", the presumption is that they will do the work of statistical collection wherever possible. In the statistical function, the ECB seems to have less discretion in this respect than foreseen in the more general context of Article 12: *"To the extent deemed possible and appropriate … the ECB shall have recourse to the NCBs to carry out operations which form part of the tasks of the ESCB.*"
- *"collect the necessary statistical information either from the competent national authorities or directly from economic agents"*. The information must be necessary to perform the tasks of the ESCB; "necessary" may be understood to refer both to the kind of information, and to its significance or materiality in a particular case. The source may be a national authority other than the NCB (e.g. the national statistical institute). The ECB is authorised to collect statistical information directly.
- *"For these purposes [the ECB] shall co-operate with the Community institutions or bodies and with the competent authorities of the Member States or third countries and with international organisations.*" The ECB has a wide-ranging obligation to cooperate with parties outside the ESCB in performing its statistical functions, reflecting the importance of coherent statistics conforming to European and international statistical standards.
- *"The ECB shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence.*" "Competence" is discussed in Chapter 21. The ECB is obliged to engage in harmonisation in these areas; it may choose to do so in other areas of interest. "Contribute to" seems a weaker term than the word "promote" in the EMI's Statute; it is not clear what practical difference can be meant in an area where the ECB has primary responsibility. The obligation is limited to cases where harmonisation is necessary to ensure effective performance of the tasks of the ESCB, and it covers all stages in the statistical process.

- *"The Council … shall define …"*. Article 5.4 thus sets out the scope of the so-called complementary legislation which the EU Council was required to adopt before the start of Stage Three. This is Regulation (EC) No 2533/98, which is described in the next section.

Other provisions of the Statute that have some relevance to statistical work are noted below:

- The Governing Council may issue legal instruments to ensure performance of the tasks entrusted to the ESCB (Article 12.1); these are binding however only in Member States participating in Economic and Monetary Union (Article 43.1).
- NCBs in participating Member States are an integral part of the ESCB and must comply with "guidelines and instructions" of the ECB (Article 14.3).
- Article 14.4 however states that *"NCBs may perform functions other than those specified in this Statute unless … these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of NCBs and shall not be regarded as being part of the functions of the ESCB."* NCBs commonly perform statistical functions of this kind, e.g. providing data as input to national accounts, and supplying national data to international organisations, or to prudential supervisors. Such activities are not covered by Article 5 of the Statute nor by ECB legislation, though as will be seen later, statistical information collected under ECB legislation for ESCB purposes may be used for these or other purposes.
- Article 47.2 states that *"the General Council shall contribute to the collection of statistical information as referred to in Article 5."* Because Article 5 applies to all Member States, statistics is a responsibility of the General Council. While legal instruments adopted by the ECB have no binding force in non-participating Member States, the General Council and by extension the NCBs of non-participating Member States must involve themselves in the ECB's statistical work.

Regulation (EC) No 2533/98 concerning the collection of statistical information by the ECB

Article 107(6) of the Treaty (formerly Article 106(6)) says that the (EU) Council *"[or] on a recommendation from the ECB and after consulting the European Parliament and the Commission, shall adopt the provisions referred to in Article … 5.4 of the Statute of the ESCB."* These provisions require the Council to define the scope of the ECB's reporting requirements, the confidentiality regime and provisions for enforcement. These aspects are addressed by Regulation (EC) No 2533/98. Other Regulations adopted at the same time further specify the ECB's sanctions regime (No 2532/98), including sanctions for non-compliance with statistical Regulations, and the minimum reserves regime (No 2531/98).

Regulation No 2533/98 is so important to the ECB's statistical activities that it merits detailed discussion article by article. It may be useful to start with a brief description of the procedure followed in preparing it. An issues note was discussed in the May 1996 meeting of the WGS, following which a draft text went for comment to the MPSC and the Working Group of Legal Experts (WGLE) in June 1996. The original intention was to offer a draft to the EMI Council before the summer break; in practice the text of a draft Regulation was not discussed by the EMI Council until November 1996, but was then, after light editing, sent to the Commission and the Monetary Committee. The draft Regulation was published in January 1997 as an EMI draft in the so-called "framework" document required by Article 117(3) of the Treaty (*"the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage"*).

The aim was an informal but thorough discussion of the text in the Monetary Committee in 1997 in the hope that the Regulation would pass quickly through the Council when formally presented by the ECB in summer or early autumn 1998. This aim was achieved through discussions in an ad hoc Working Group of the Monetary Committee in April-June 1997, followed by a formal opinion sent by the Chairman of the Monetary Committee to the EMI in August 1997. Meanwhile the CMFB had offered comments on the draft in June, and the SPC was to do so in September.

The WGLE commented on an amended text reflecting these comments in December 1997 before resubmission to the EMI Council in January 1998. A new draft was approved by the EMI Council that month for informal submission to the European Parliament, which considered the text in April 1998. The text was formally submitted by the ECB to the Council under Article 107(6) in July 1998, followed by discussions in the European Parliament (consulted in accordance with Article 107(6)) and in a Council working party in September 1998. The Commission (which had been closely involved throughout) offered a formal opinion in October 1998, which was taken into account, together with amendments proposed by the European Parliament, in a final deliberation by the Council working party. The Regulation was adopted by the Council in November 1998. The Regulations mentioned earlier concerning minimum reserves (No 2531/98) and the ECB's power to impose sanctions (No 2532/98) followed a similar course and timetable.

Council Regulation (EC) No 2533/98 concerning the collection of statistical information by the ECB in detail

The purpose of this section is to comment on important and/or contentious provisions of the Regulation. References are made to the recitals as appropriate, or at the end.

Article 1.4 *"Cross-border positions"* and *"cross-border transactions"* are defined with reference to the euro area as a whole.

Article 2 The reference reporting population comprises the entities from which the ECB is entitled to collect statistical information. Article 2 therefore meets the first requirement in Article 5.4 of the Statute (*"The Council shall define … the natural and legal persons subject to reporting requirements"*). The list in Article 2.2 (MFIs, other financial intermediaries except insurance corporations and pension funds, Post Office giro institutions, entities holding cross-border positions or carrying out cross-border transactions, entities issuing securities or electronic money to the extent that the ECB needs data concerning these activities) relates to the ECB's fields of competence. Article 2.3 covers entities which under national law in some Member States are neither legal nor natural persons (mutual funds being the most important example), and clarifies the treatment of branches – Recital 9 also concerns these cases. The references to cross-border positions and transactions in Articles 1.4 and 2.2 (c) should be read in the light of Recital 12, which notes that, as a transitional procedure, compiling the financial account of the balance of payments may require information on all cross-border positions or transactions of residents of participating Member States. This point is further discussed in the next chapter in connection with Guideline ECB/1998/17 and Recommendation ECB/1998/NP21, and in Chapter 11.

Article 3 The ECB must specify the actual reporting population to be drawn from the reference reporting population defined in Article 2. The ECB may grant exemptions (Article 3(c)). The ECB must minimise the reporting burden, and take into account Community and international statistical standards (Recital 23 moreover says that *"the ECB and the Commission will establish appropriate forms of co-operation … in order to carry out their tasks in the most efficient way, trying to minimize the burden on reporting agents"*). This is all without prejudice to satisfying the ECB's requirements.

Article 4 The wording reflects the sensitivities of non-participating Member States concerning obligations to the ECB. Article 10 of the Treaty requires all Member States to *"take all appropriate measures … to ensure fulfilment of the obligations arising out of this Treaty"*. As noted earlier, Article 5 of the Statute applies to all Member States, and Article 47.2 says that *"The General Council shall contribute to the collection of statistical information referred to in Article 5."* So it is clear that non-participating Member States have statistical responsibilities arising from Economic and Monetary Union. However, legal instruments adopted by the ECB have no binding force in non-participating Member States, as Recital 14 recalls. Recitals 15 and 16 note the individual positions of Denmark and the United Kingdom. Recital 17 recognises that, while the statistical information sought by the ECB from non-participating Member States will differ from that required from participating Member States, all Member States will need to contribute to ECB statistics (e.g. for monitoring economic and financial developments) and non-participating Member States should also prepare statistically for participation. The careful wording of Article 4 makes clear that all Member States must contribute to fulfilling the obligations arising from Article 5 of the Statute, although legal instruments of the ECB do not have binding force outside the euro area. Expressing the obligations of non-participating Member States proved difficult at all stages of preparing the Regulation.

Article 5 The ECB addresses the actual reporting population, drawn from the reference population, in Regulations. Article 5.2 obliges the ECB to consult the Commission on draft Regulations wherever links with the Commission's statistical requirement exist, involving the CMFB where appropriate. Recital 23 refers to *"appropriate forms of co-operation"* between the ECB and the Commission, in the context of minimising the reporting burden. (There are similar provisions in Article 9 of the Community statistical law, Regulation (EC) No 322/97 on Community statistics.)

Article 6 relates to *"the appropriate provisions for enforcement"* of reporting and thus concerns the third matter mentioned in Article 5.4 of the Statute. The ECB and the NCB concerned are empowered to seek verification of data, and to carry out a compulsory collection, where a reporting agent is suspected of infringing statistical requirements. A controversial matter at the drafting stage was the right to enter the reporting agent's premises. In the final text this right is limited to the case in which the reporting agent opposes or obstructs verification or compulsory collection.

Article 7 defines an infringement of reporting requirements and empowers the ECB to impose penalty payments and fines up to limits set out in Article 7.4, under the principles and procedures set out in Regulation (EC) No 2632/98 concerning the ECB's powers to impose sanctions. In preparing Regulation No 2533/98, consideration was given to non-pecuniary sanctions: partly because of doubts about their legality, mention was in the end confined to Recital 13, which says that the sanctions set out in Article 7 would not prevent the ECB from excluding a reporting agent from monetary policy operations in the event of a serious infringement of statistical reporting requirements. (The point about legality is that Article 110(3) of the Treaty enables the ECB to impose fines or periodic penalty payments but does not mention non-pecuniary sanctions.)

Article 8 specifying the confidentiality regime fulfils the second requirement of this piece of legislation as set out in Article 5.4 of the Statute, and proved another very controversial area. "Confidentiality" here means safeguarding information relating to an individual identified or identifiable economic entity, whether a reporting agent itself or some other entity whose business is being reported. It is not about preventing leaks of sensitive information ahead of publication. The provisions of Article 8 concern statistical information necessary for the tasks of the ESCB to be performed. Article 8.2 states that *"Transmission from the NCBs to the ECB of confidential statistical information shall take place to the extent and at the level of detail necessary for the exercise of the tasks of the ESCB as described in Article 105 of the Treaty"*. Thus NCBs may not withhold confidential information from the ECB if the ECB needs it to carry out the tasks of the ESCB. Article 8.2 does not require, or explicitly permit, confidential statistical information to be transmitted in the reverse direction (from the ECB to NCBs), or from the ECB to anyone else, or among NCBs, though the ECB and NCBs may use it for the production of Community or national statistics (by agreement with the Commission or a national statistical institute) and for certain other specified purposes. Since the tasks of the ESCB described in Article 105 may involve the use of individual statistical information and not only aggregated data, Article 8 gives no undertaking that the information will only be used for statistical purposes (where the identity of individual economic agents is not relevant). In this it departs from the Community statistical law (Regulation (EC) No 322/97), from Council Regulation No 1588/90 on the transmission of confidential data to Eurostat, and from much other statistical legislation. Article 8.3 emphasises the different approach, stating that *"Reporting agents shall be informed of the statistical and other, administrative, uses to which statistical information provided by them may be put"*; Recital 1 says *"this statistical information is used primarily for the production of aggregated statistical information, for which the identity of individual economic agents is irrelevant, but may also be used at the level of individual economic agents"*; Recital 10 says that data submitted by credit institutions may be used to calculate their minimum reserve requirements; and Recital 21 explains that the confidentiality regime defined in the Regulation inevitably differs to some extent from that set out in Regulation No 322/97. Where however the ECB receives data from national statistical institutes and the Commission, Article 8.8 says *"this Regulation shall, as regards statistical confidentiality, apply without prejudice to Regulation (EC) No 322/97"*; and Recital 22 says that *"the rules on statistical confidentiality applied by the NSIs and the Commission on the statistical information they collect on their own behalf must be respected"*. This appears to mean that confidential data collected for purposes of Community statistics (or for national purposes) and submitted by a national statistical institute or the Commission to the ECB may only be used to compile statistical aggregates, while data submitted to the ECB by an NCB may be used in performing any of the functions of the ESCB. Subject to the point about statistical confidentiality, Recital 21 says that the ECB will *"take into account the principles underlying Community statistics"* in Article 10 of Regulation No 322/97.

In this connection it might also be noted (Article 8.8) that the Regulation applies without prejudice to Directive 95/46/EC concerning the protection of personal data. This is of no practical importance since the ECB receives no personal data in carrying out its statistical work. Finally, Articles 8.9 and 8.10 oblige the ECB and NCBs to take all necessary measures to protect confidential statistical information; the ECB must define common rules and minimum standards to prevent unlawful disclosure and unauthorised use (see the section in Chapter 19 on Guideline ECB/1998/NP28).

The potential multipurpose use of statistical information submitted to the ECB, and accordingly the absence of a general undertaking to use it only for statistical purposes, caused difficulty at all stages of work on the Regulation, including in discussions in the European Parliament and the Council.

Most of the provisions of Regulation No 2533/98 took effect on 1 January 1999; provisions allowing the ECB to issue legal instruments entered into force immediately on publication, in November 1998, since the legal instruments themselves needed to be effective from the start of Stage Three. The Regulation has two annexes, the first setting out the limit of the national economy (defining residence and non-residence) and the second defining three financial sectors (central bank, other monetary financial institutions, and other financial intermediaries, except insurance corporations and pension funds). These annexes were lifted straight from the ESA 95 but are not labelled as such to avoid any obligation to amend the Regulation in line with amendments to the ESA 95.

The legal infrastructure supporting the ECB's statistical activities at the start of Stage Three consisted of the Treaty and Statute provisions described earlier; Council Regulation (EC) No 2533/98 as just described; and five ECB legal instruments adopted between the enactment of Regulation No 2533/98 and the end of 1998. Four of these gave substance to the ECB's requirements in the areas of money and banking statistics and statistics on the balance of payments and international investment position, and one concerned the arrangements for protection of confidential statistical data in the ESCB as required by Article 8.9 of Regulation No 2533/98. Some of these instruments have been amended or repealed since, and new instruments have been adopted. These ECB legal instruments are described in the next chapter.

Chapter 19

ECB legal instruments at the start of Stage Three

Their form and content. New and amending legal instruments adopted to end-2003 (annex).

This chapter describes the part of the statistical legal infrastructure represented by ECB legal instruments at the start of Stage Three; for information and to avoid confusion, an annex summarises the changes in the legal infrastructure up to the end of 2003.

Together with the Statute of the ESCB/ECB, Council Regulation (EC) No 2533/98 provides a framework for the ECB's statistical activities. Further legal instruments are needed to address specific data requirements to an actual reporting population drawn from the reference reporting population in Article 2 of Regulation No 2533/98, and to instruct NCBs (or other national statistical agencies) on what data they should transmit to the ECB, in what form, when and how. ECB Regulations address reporting agents, and are directly applicable in participating Member States. ECB Guidelines are binding on members of the Eurosystem, including the ECB itself. ECB Recommendations have no binding force, but may be used to inform statistical agencies in participating Member States which are not central banks of the ECB's statistical requirements, where they are the source of data.

The following legal instruments were adopted by the ECB in December 1998 and took effect from the start of Economic and Monetary Union:

- Regulation concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/1998/16);
- Guideline concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the NCBs of statistical information in the field of money and banking statistics (ECB/1998/NP27);
- Guideline on the statistical reporting requirements of the ECB in the field of b.o.p and i.i.p. statistics (ECB/1998/17);
- Recommendation on the same subject (ECB/1998/NP21);
- Guideline concerning the common rules and minimum standards to protect the confidentiality of the confidential statistical information collected by the ECB assisted by the NCBs (ECB/1998/NP28).

Here, "NP" means not published. Changing practice concerning publication of Guidelines and Recommendations is noted at the end of this chapter. All these legal instruments or their successors have now been published.

These legal instruments are discussed in turn.

Regulation concerning the consolidated balance sheet of the MFI sector

Regulation ECB/1998/16 obliged MFIs in participating Member States to report balance sheet data to the respective NCB.

Article 2 defined the actual reporting population (*"MFIs resident in the territory of the participating Member States"*). Article 2.2 allowed NCBs to exempt small MFIs from full reporting, provided that the MFIs which do contribute to the monthly consolidated balance sheet account for at least 95 % of the total MFI balance sheet in that Member State.

Article 3 obliged the ECB to maintain and make available for information a list of MFIs for statistical purposes, under the responsibility of the Executive Board.

Article 4 summarised the statistical reporting obligations of MFIs, set out in detail in Annex I of the Regulation. The data were to be reported monthly (with certain fuller detail quarterly) to the NCB of the Member State in which the reporting MFI is resident. Annexes II and III set out the much reduced requirements for credit institutions and other MFIs which benefit from the exemption from full reporting for small institutions under Article 2. Annex IV established minimum standards for transmission, accuracy, conceptual compliance and revisions to be met by MFIs.

Article 5 explained that the balance sheet data reported by credit institutions would be used to calculate the base for minimum reserves. (This fulfilled the obligation of the ECB under Article 8.3 of Regulation No 2533/98 to inform reporting agents of administrative use of their data.)

Article 6 stated that NCBs might exercise their right to verify or compulsorily collect the data required under the Regulation, without prejudice to the right of the ECB to do so.

The format of a short legal text accompanied by detailed Annexes followed the precedent of the ESA 95 Regulation. The following points in the recitals should also be mentioned:

- Nothing in the Regulation prevented NCBs from collecting data needed to satisfy the ECB's requirements (the subject of the Regulation) as part of a broader statistical framework established under their own responsibility, which also serves other statistical purposes (Recital 4).
- The use of monthly balance sheet information to calculate the reserve base of credit institutions has reduced the overall reporting burden (Recital 6).
- Although Regulations made by the ECB under Article 34.1 of the Statute (such as this Regulation) do not apply in non-participating Member States, all Member States have statistical obligations and must make timely statistical preparations to join the euro area (Recital 8).

Regulation ECB/1998/16 laid down what reporting agents (MFIs) must do to meet the ECB's statistical reporting requirements. What NCBs and the ECB itself (as a reporting agent) must do was set out in a Guideline, as outlined below.

Guideline concerning money and banking statistics

As in the case of Regulation ECB/1998/16, the legal text of the Guideline ECB/1998/NP27 was short, with the substance of what NCBs and the ECB itself are to do contained in annexes.

Article 1 required NCBs to compile and report an aggregated balance sheet for "other MFIs" in their respective Member States. They must also report data relating to their own balance sheet, as must the ECB. In addition, they must report certain memorandum items (information relevant to the compilation of flows, and data on general government deposit liabilities and close substitutes for deposits where there are any) to a timetable. Article 1.7 prevented NCBs from publishing national contributions to monthly euro area monetary aggregates until the ECB had published the aggregates; required national contributions when published to be the same as the contributions to the last published aggregates; and required the aggregates, if published by NCBs, to be reproduced faithfully.

Article 2 concerned NCBs' reporting to the ECB of statistics on the reserve base, and the "standardised deductions" relating to MFIs' liabilities in the form of debt securities and money market paper.

Article 3 concerned updates to the list of MFIs.

Article 4 required NCBs to report data on retail interest rates, as a contribution to euro area aggregates and in the form of key national rates.

Article 5 required NCBs to monitor the quality and reliability of statistical information sent to the ECB, and laid down a revision procedure.

Article 7 (there was no Article 6) allowed the Executive Board to make technical amendments to the Annexes to the Guideline, provided that the conceptual framework and reporting burden were unaffected.

The substance of what the NCBs (and, where relevant, the ECB itself) were required to do was set out in eleven annexes, some of them lengthy and detailed. The seven recitals explained the purpose of the Guideline and the need for the supplementary information (not directly reported by MFIs) contained in the memorandum items.

Guideline on balance of payments and international investment position statistics

The initial intention in 1998 was to prepare an ECB Regulation imposing reporting obligations directly on economic agents in participating Member States for b.o.p. and i.i.p. statistics. For various reasons a Guideline (ECB/1998/17) was chosen instead. Unlike in money and banking statistics, where the reporting agents are a relatively small number of financial institutions (the 9,860 or so MFIs in the euro area at the start of Stage Three), the reporting population for b.o.p. and i.i.p. statistics potentially includes any economic agent resident in the euro area with cross-border transactions or positions. Moreover, while MFI reporting systems are rather standard across the euro area, this is not so for balance of payments collection systems, with serious complications for a verification and sanctions regime. The fact that, at national level, balance of payments statistics are subject to a variety of legal regimes, and that the Commission (Eurostat) also collects balance of payments statistics at European level, further complicated the use of an ECB legal instrument addressed directly to reporting agents. The alternative to a Regulation was a Guideline addressed to NCBs in the euro area, setting out the statistical information which they were to transmit to the ECB and certain modalities and standards to be followed, but leaving them with discretion as to how to collect the information from reporting agents according to national practices and procedures. Because in some participating Member States b.o.p. and i.i.p. data collection is not the responsibility of the NCB, the ECB also issued a Recommendation (ECB/1998/NP21) to the agencies concerned (the Belgian-Luxembourg Exchange Institute, the Ufficio Italiano dei Cambi and the Central Statistics Office in Ireland). (This is in substance identical to the Guideline and is not covered separately here.) A Recommendation is not legally binding on the institution to which it is addressed.

Article 1 *"Cross-border transaction"* and *"cross-border position"* were defined with respect to the euro area as a whole but – reflecting Recital 12 and Article 1.4 of Regulation No 2533/98 – with the proviso that until end-2005 the terms might also include cross-border transactions and positions within the euro area, because of the way parts of the financial account and associated income flows are compiled in the euro area balance of payments (and corresponding items in the i.i.p.), as described in Chapter 11.

Article 2 summarised the ECB's statistical requirement, details of which were set out in three annexes. Article 2 noted that the data requirement conforms to current international standards, notably the BPM5.

Article 3 set timetables for transmission of monthly and quarterly b.o.p. data and annual i.i.p. data to the ECB. Data must be collected from reporting agents with these timetables in mind.

Article 4 concerned transmission standards (including use of the GESMES/CB format), details of which were contained in Annex IV.

Article 5 required NCBs to monitor the quality and reliability of the data provided to the ECB, and encouraged the transmission of revisions.

Guideline concerning the protection of confidentiality

The four legal instruments described above (including the Recommendation) supported the provision of data to the ECB. A fifth legal instrument adopted before the start of Stage Three set standards to protect the confidentiality of statistical information, as required in Article 8.9 of Regulation No 2533/98.

This Guideline (ECB/1998/NP28), which was still in force at the end of 2003, covers the protection of confidential statistical information as defined in Article 8.1 of Regulation No 2533/98 (*"statistical information shall be confidential when it allows reporting agents or any other legal person, natural person, entity or branch to be identified, either directly from their name, address or from an officially allocated identification code, or indirectly through deduction, thereby disclosing individual information … Account shall be taken of all the means that might reasonably be used by a third party to identify the said reporting agent etc."*). Article 8.9 of Regulation No 2533/98 requires the ECB and the NCBs to *"take all the necessary regulatory, administrative, technical and organisational measures to ensure the protection of [such] information"*, and requires the ECB to *"define common rules and minimum standards to prevent unlawful disclosure and unauthorised use"*.

Since all NCBs already had procedures to protect data of this type, the purpose of the Guideline was to set a basic level of protection across the Eurosystem *"without prejudice to any higher level that is achieved through the actual protection measures in force … and without impinging on these actual protection procedures or imposing specific technical solutions on the ECB and the NCBs, provided that the common rules and minimum standards are fulfilled"* (Recital 3 of ECB/1998/NP28).

Article 2 The minimum logical protection is a unique user identifier and personalised password. Published data should cover at least three economic agents. Where a larger number contribute to a figure but nevertheless one or two economic agents account for a large part of any observation, published data must be arranged so as to prevent their indirect identification.

Article 3 Physical access to confidential data must be restricted to authorised parties.

Article 4 The ECB and NCBs must ensure that any third party requiring access to the data respects their confidentiality (e.g. through provisions in a contract).

Article 5 Confidential statistical information must be protected in course of transmission (through encryption) and through network security.

Article 6 Rules and procedures relating to data protection must be documented and staff handling the data must be properly informed of them.

Article 7 provides for periodic reports on problems encountered and on implementation of the Guideline.

Most of the legal instruments adopted before the start of Stage Three have since been amended, and in some cases replaced. New instruments have also been introduced. For convenience, the annex to this chapter summarises developments to end-2003. It should further be noted that all legal instruments relating to statistics have now been published; the initial practice had been not to publish instruments with only internal (Eurosystem) effect, but in the interests of openness the Governing Council decided in November 2000 to publish retrospectively a number of such ECB legal instruments.

Annex

ECB legal instruments concerning statistics 1998–2003

1. Money and banking statistics

Regulation ECB/1998/16 (December 1998)
- amended by Regulation ECB/2000/8 (late revisions of data affecting reserve requirements; treatment of mergers/divisions of credit institutions)
- replaced by Regulation ECB/2001/13 (substantial enhancements – reporting of valuation changes, monthly sectorisation, etc.)
- in turn amended by Regulation ECB/2002/4 (postponing effective date to January 2003)
- further amended by Regulation ECB/2002/8 (adding obligations to report holdings of MMF shares/units)
- further amended by Regulation ECB/2003/10 (on account of data relating to acceding countries, and to reflect changes in the minimum reserves system)

Regulation ECB/2001/18 (December 2001) (a new Regulation concerning MFI interest rates)

Guideline ECB/1998/NP27 (December 1998)
- amended by Guideline ECB/1999/NP4 (amendments to three annexes)
- replaced by Guideline ECB/1999/NP20 (wholesale amendments to annexes justifying a new Guideline)
- replaced by Guideline ECB/2000/13 and Guideline ECB/2000/NP12 (Guideline ECB/1999/NP20 split into published and unpublished parts, with amendments)
- replaced by Guideline ECB/2002/5 (amendments to both existing Guidelines and publication of (amended) material taken from Guideline ECB/2000/NP12)
- replaced by Guideline ECB/2003/2 (updated to reflect provision of new data under Regulations ECB/2001/13 and ECB/2001/18).

2. Balance of payments statistics/international investment position

Guideline ECB/1998/17, Recommendation ECB/1998/NP21 (December 1998)
- replaced by Guideline ECB/2000/4, Recommendation ECB/2000/5 (including requirements for international reserves statistics)
- replaced by Guideline ECB/2003/7, Recommendation ECB/2003/8 (including geographical breakdown of transactions and positions outside the euro area, and further sector and instrument breakdowns for MUFAs and monetary analysis).

3. Statistical confidentiality

Guideline ECB/1998/NP28 (December 1998).

4. Monetary Union Financial Accounts

Guideline ECB/2002/7 (November 2002) (provision of quarterly MUFA data).

The IT infrastructure

Chapter 20

Data exchange, storage and dissemination

The statistical information systems developed for the start of Stage Three – electronic data exchange, a statistical databank for the ECB, the MFI statistical and monetary database. All (like the statistics themselves) considered the minimum necessary for the ECB at the start of Economic and Monetary Union.

Data exchange

In the early 1990s, EU central banks sent national economic and financial data to the BIS using an electronic link, tape or diskette. The BIS maintained a large macroeconomic databank containing this information, and also data which the BIS collected and compiled on its own initiative (e.g. the international banking and securities markets statistics). This information was available to both NCBs and the Committee of Governors Secretariat.

An agreement at the end of Stage 1 (WGS report of December 1993 to the Committee of Governors – "*The EMI and the BIS Data Bank Services: organisational issues*") secured continued access to the BIS Databank for the EMI, retaining the existing arrangements for the transmission of data from NCBs to the BIS. NCBs would not, as a regular matter, transmit data to the EMI; their relationship would remain with the BIS, which would frequently (twice daily) transmit new or changed data to the EMI, with periodic transmissions of the whole databank. The EMI in turn would transmit any aggregates compiled by the EMI to the BIS. The EMI had no telecom connections for statistical purposes other than with the BIS. In effect, the BIS provided a data collection and databank management service to the EMI.

However, it was clear that dependence on another institution for this service would not be appropriate in Stage Three – or indeed in the latter part of Stage Two, when the NCBs would be collecting large amounts of data from which euro area aggregates, some of them market-sensitive ahead of publication, would be compiled. Accordingly the EMI began work on two projects, one to establish electronic data exchange between the EMI/ECB and the NCBs, and the second to build facilities to compile and store euro area statistics in the ECB. The first of these was an ESCB project, requiring the approval of the EMI Council and the involvement of the NCBs; the second was an internal project carried out under the EMI's project procedures.

The WGS outlined the proposed data exchange project to the EMI Council in a report dated April 1996. (The Council had already been appraised of this need in the "phasing-in" report of January 1996, which suggested that a project team should be appointed in the second quarter of 1996.) The aim was a flexible, quick, secure and cost-effective system for the exchange of large amounts of data. It would have to be flexible because the exact needs could not be foreseen; quick because of the need for timely data for the ECB's policy purposes; secure in the sense of safe from eavesdroppers and also in the sense of protected from bogus data or human error; and cost-effective for both the ECB and the NCBs, both in regular operation and in the case of expansion to accommodate EU or euro area enlargement or new data. The report recognised that the NCBs already had a variety of IT infrastructures; the aim should be to build bridges to these infrastructures, not to force NCBs to replace existing systems which functioned well. There were also some further aims: to provide for both batch and interactive methods of data exchange; to conform to existing international standards; and to provide acceptable contingency procedures (which might however need to rely on more traditional means of data exchange than an electronic link). The project was not designed to enable NCBs to exchange data among themselves, but to send data to the ECB and receive data along the same channel; the limited data exchange likely to be necessary among NCBs could probably be accommodated by CebaMail, the existing channel for exchange of confidential information among EU central banks. The report stressed the importance of cooperation with the BIS and Eurostat in the project, because of the data exchange that the ECB would probably have with each of them, but also because they were both engaged in similar data exchange projects and cooperation should avoid duplication of development effort and ensure that the systems, once in place, were compatible and consistent. Because of the probable need for "euro area" aggregates to be available in the ECB for policy planning purposes some months before the start of Stage Three, and also because a need for systems testing in 1998 could be foreseen, the report to the EMI Council proposed that the project should be completed by the end of the first quarter of 1998.

As a major part of the project, the EMI, in close collaboration with Eurostat and the BIS, whose data exchange format was nearing the end of its life because it was not year-2000 compatible, developed a data exchange model and a new transmission format called GESMES/CB (renamed GESMES/TS in 2003), which proved so successful a medium for the transmission of statistical time series that by early in Stage Three it was becoming a world standard. The project was completed on time and to budget. The first transmission of balance of payments data was in May 1998, and prototype monetary statistics followed in summer 1998. From the first live operation in spring 1998, bulk data transmission to and from the ECB worked well.

ECB statistical databank

The second major task was to develop facilities in the ECB to receive the data from NCBs and other sources; where necessary, to process the data received and compile euro area aggregates; and to store and display the data for the benefit of users. The EMI had already early in Stage Two chosen FAME as a database system in which to hold the economic and financial data received from the BIS and other statistical data. Although alternatives were briefly considered in the early phase of databank development – notably a relational database to hold the metadata and related business functions (e.g. security), with only the time series numbers themselves in FAME – the generally good features of FAME and the lack of time persuaded the EMI to continue with FAME. The following were needed:

- a data reception and data production system, designed to receive and process data in the GESMES/CB format developed in the data exchange project, with facilities to translate data received in other formats;
- a database, or a set of databases, holding the data for the benefit of ECB users, with sufficient security, access control, navigation features and other

functionalities. Since an adequate system would have to be operational by mid-1998, only about eight months after approval of the project, refinements offering complete harmonisation of storage and access methods, better user interfaces, and full integration with related systems in the ECB, would have to be introduced later.

So far as users were concerned, the aim was to give all data the same characteristic appearance, whatever their source. Many enhancements were introduced in the 18 months or so following the availability of the basic system; indeed the project closure report, concluding that the project met all essential requirements within budget, was dated May 2000.

Related systems (in addition to the electronic data transmission system) consisted of:

- the ECB's decision-support facility, DESIS – a system developed by users which extracts data from the ECB's databank and displays it in convenient form for quick reference, and also contains some information not stored in the ECB's statistical databank;
- the ECB's website, where there is a clear need for consistency with the latest published information in the databank.

The databank did not and still does not offer online access to users outside the ECB, despite pressure from NCBs for such a facility. The reason was shortage of time and resources to develop online access, and the existence of alternatives. These were a highly automated transfer of files containing blocks of data by the ECB to the NCBs, enabling data to be added to databanks in NCBs almost immediately they become available, and, for publicly available data, the ECB's statistical website. Online access for NCBs to the ECB's databank nevertheless remains a long-term aim.

The MFI statistical and monetary database

The EMI collected the first lists of proposed MFIs, and a limited amount of information about each, in an MS-Access database, the information having been transmitted by the NCBs using CebaMail. This was a satisfactory arrangement for what was in effect a list of names and addresses, used for research rather than operational purposes.

It was apparent that the MFI list might have other uses in Stage Three. All the institutions required to hold minimum reserves under Article 19.1 of the Statute (if there were to be minimum reserves) would be MFIs (though not all MFIs might have to hold minimum reserves), and reserve-holding institutions would need to recognise among their counterparties other institutions obliged by the ECB to hold reserves in order to calculate their own reserve base. Moreover, the Eurosystem's counterparties would be MFIs; it thus seemed natural to hold operational counterparty information in the MFI database, or in some database linked to it. Once the database had operational uses, it would need to be kept fully up to date, which in turn implied robust, automated procedures; a large number of parties outside the ECB (MFIs themselves, Eurosystem central banks) would need instant access to it; and the inclusion of confidential counterparty information implied secure transmission and strictly controlled access to that information. Finally, the ECB would have to maintain another large list, continuously updated and accessible to a large number of outside parties, namely the list of assets eligible for use in Eurosystem operations. Although there would be no direct relationship between the MFI list and the eligible assets list, the two applications were similar and would require similar functionality. It therefore seemed a good idea to combine in a single project an upgraded MFI database, counterparty information, some of it confidential, and an eligible assets database, to provide for essential needs in good time for the start of Stage Three. Refinements could be made later.

The immediate needs, to be met in a first phase of the project from early 1998 to the summer when testing of all ECB systems would begin, were to ensure that confidential information was sufficiently protected (relevant for counterparty information only), and to provide quick access for the numerous outside users to the rest of the information via the internet.

Development work at the ECB was kept to a minimum in the latter months of 1998, to leave room for testing and emergencies. The second priority, to be met in 1999, was the development of automatic data reception, checking and validation. In practice, some of the checking and validation facilities had to be brought forward into the first phase, because the existing facilities proved unable to handle the volume of eligible assets material. Further enhancements to these databases were the subject of a later phase of the project (see Chapter 42 in Part B).

At the start of Stage Three, therefore, the ECB was able to collect, update continuously, hold securely where necessary, and disseminate to a large number of users, lists of MFIs with basic information about them, and lists of eligible assets. The first releases on the internet were in October 1998. The arrangements for transmitting all this information to the ECB, still via CebaMail, needed improvement, but this could await the later stage of the project. Meanwhile, the eligible assets list could not in practice be kept as up to date as was desirable, and administering the databases was more labour-intensive than it might have been.

The organisational framework

Chapter 21

Competence, cooperation and organisation

The three main organisational issues – division of responsibility for statistics at European level; ensuring the cooperation necessary to make the division of responsibility work; and achieving an efficient allocation of tasks within the ESCB. Relations in statistical matters with international organisations.

The background to three reports to the EMI Council concerning organisation of statistical work, endorsed by the Council in July 1995, has been described earlier.

The reports covered three distinct but related matters:

- the statistical field of competence of the ESCB;
- statistical cooperation at the Community level in Stage Three;
- an organisational framework for the statistical function of the ESCB (essentially, the respective roles of the ECB and the NCBs).

This chapter also discusses cooperation between the ESCB and international organisations outside the European Union.

Competence

The first of the three July 1995 reports reflected the view of the Committee of Governors expressed in their comments on the Community Statistical Programme 1993-97 in April 1992, and further discussions in the WGS and the CMFB (including the Groupe de Réflexion report), as described in Chapter 2. Early conclusions had been refined in some respects. Thus the July 1995 report offered a working definition of "competence" in the statistical context; explained more fully the considerations behind the allocation of competence and why it should be "full" in one area and "shared" in another, and how sharing might work; and introduced a distinction within general economic statistics (broadly, macroeconomic statistics other than money and banking, balance of payments and financial accounts) between areas of "vital interest" to the ESCB (prices and government finance statistics) and other general economic statistics. The report necessarily looked ahead to statistical activities required or implied by the functions of the ESCB, but also paid regard to existing national practice since the location of expertise at national level and current channels of communication were both relevant.

The report defined competence in an area of statistics as deciding the definition of concepts, having the power to arrange for the necessary data to be collected from reporting agents, and disposing of the human and technical resources to compile these data into statistics. Full competence meant that a single agency was to do all these things within the area of statistics concerned. The report however stressed that competence was to be exercised in consultation with other interested parties and within an internationally accepted accounting framework. Shared competence meant that parts of a given field of statistics were to be the remit of different agencies, or that different agencies would be responsible (for example) for defining concepts on the one hand, and for collection and compilation on the other. The report stressed that in this case each institution should have full competence within its respective area. Consultation and cooperation would clearly be vital in areas of shared competence.

In deciding how competence should be allocated, the most important consideration from the perspective of the ESCB would be the centrality of an area of statistics to the conduct of monetary policy. A second consideration would be relevance to other central banking functions (notably prudential supervision and financial stability). Subsidiary considerations in practice would follow from these: thus (for example) expertise in banking statistics is nearly everywhere located in central banks, which have established communication channels with banks for the transmission of data, dealing with queries, discussion of new requirements, etc. Having banks report all related data to a single compiler would also promote consistency across the relevant area of statistics and minimise the reporting burden on them.

Balance of payments statistics are somewhat different. Their importance for monetary policy, and their relevance to other central banking functions, are somewhat less. At the same time their relevance for other policy interests (commercial policy, structure of industry), including at Community level, is significant. While in most Member States balance of payments data were compiled from information supplied by banks on cross-border transactions undertaken for their customers (what the 1992 discussions meant by balance of payments on a bank settlements basis), this was not everywhere the case: in the United Kingdom and Ireland, balance of payments statistics were compiled by the national statistical office, mainly from data collected by survey from business enterprises.[58] Moreover, some aspects of the balance of payments were relevant to the European Commission's responsibilities and interests, notably in the areas of commercial policy and economic structures. So the report proposed that balance of payments statistics should be an area of shared competence at European level. Although it did not define precisely how this would work, references in the text to the ECB's interest in monthly data on (a few) key variables, and in more detailed lower frequency financial flows and stocks statistics, all relating to the euro area, compared with the Commission's trade policy and structural interests, quarterly/annual national accounts need, and Community-wide responsibilities, suggested a division of responsibility. In practice, it took some time for the EMI and Eurostat to agree all the detail.

Financial accounts, as derived statistics (meaning that data are not collected specifically for compiling financial accounts), are different again. It was foreseen that financial accounts for the euro area would be compiled from euro area money and banking statistics, securities issues statistics, and b.o.p. and i.i.p. sources, as well as from national financial accounts compiled in accordance with the proposed ESA 95 Regulation (although the last source, required only annually and on a national basis, would not be ideally suited to the purpose). Since the Commission (Eurostat) would be responsible for implementing the ESA 95 Regulation, and financial accounts are an integral part of national accounts, the report proposed that they should also be an area of shared responsibility. In similar fashion to balance of payments statistics, later agreement between the EMI and the Commission proposed an allocation of responsibility according to frequency and geographical coverage, under which the ECB would be responsible for quarterly financial accounts covering the euro area, which

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[58] Two new Member States, Finland and Sweden, also made important use of surveys.

would be the statistics most relevant to the ECB's policy interests. The ECB would also contribute actively to conceptual and definitional issues but leave the last word with the Commission as the custodian of the ESA 95. (The detail of these arrangements could not however be addressed until the EMI Council had endorsed a feasibility study on quarterly financial accounts and approved a new Monetary Union Financial Accounts Task Force to report to the WGS, in July 1997.) The report accepted that other economic statistics (prices, costs, national income and expenditure, labour market statistics, etc.) should be the responsibility of the Commission, reflecting the role given to the Commission in existing or proposed Community legislation, current arrangements at national level (where such statistics are normally the responsibility of national statistical institutes), and the consequent existing location of expertise and channels of communication. Nevertheless, price statistics (and, in the document, government finance statistics, though these may be considered an aspect of financial accounts) were described as being of "vital interest" to central banks.

Cooperation

Most macroeconomic statistics do not stand in isolation, but instead contribute to a body of information compiled to European and international statistical standards set out in the SNA 93 and the ESA 95 (which is essentially an elaboration of the SNA 93 for Community purposes, and was in mid-1995 still in preparation). Moreover, as noted in the report on competence, both the ESCB and the European Commission would have policy interests in most areas of macroeconomic and financial statistics, though with differing emphases and to varying degrees. To ensure consistency across the wide range of statistics, therefore, and to reflect user and compiler needs, the second report endorsed by the EMI Council in July 1995 considered statistical cooperation at Community level, mainly between the ECB and the Commission with a reference to a possible need for cooperation at European level with prudential supervisors. Such cooperation was foreseen in Article 5.1 of the ESCB/ECB Statute, which obliges the ECB to cooperate with Community institutions and other bodies. The report noted that cooperation would be particularly important in the areas of shared competence and "vital interest" statistics (prices and government finance statistics), but was also needed in all areas of statistics in which the ECB had an interest. It noted the existing close contact between the EMI and the Commission through the CMFB, through cross-membership of working groups and task forces and participation in international statistical groups, and through bilateral contact. Cooperation, thus far mainly on conceptual issues and development of statistics, would have to extend to implementation and production of European-level aggregates. While recognising the risks for an independent institution with policy responsibilities of reliance for essential information on others, the report suggested that the risks might be limited by listing requirements and giving instructions to fulfil them.

The report encouraged the practice of using data for both statistical and administrative needs. This practice, common in central banks (where, for example, MFI balance sheet data may be used both for compiling banking and monetary aggregates – a statistical use – and for administrative purposes such as prudential supervision or calculating minimum reserve requirements) is explicitly excluded in the Community Statistical Law (Council Regulation (EC) No 322/97) and by law or accepted practice in many national statistical institutes. In this respect cooperation between the ECB and Commission has been necessarily limited. Chapter 18 on the legal framework discusses in greater detail the multiple use of data, which was a contentious issue in the preparation of the EU Council Regulation on ECB statistics (No 2533/98).

The July 1995 report also noted that compiling aggregates is an activity which more than one institution can perform. All that is necessary is that each institution receives the raw data that it needs and has sufficient processing capacity. Similarly, more than one institution can disseminate the compiled aggregates. The report envisaged such arrangements while stressing the need for cooperation to achieve consistent results, or at least to understand and explain any differences.

The report also noted the importance of cooperation in statistical methodology (sampling, valuation adjustments, seasonal adjustment, etc.) and in developing electronic data transmission and compilation processes. The report recognised that cooperation in these areas can not only save effort but also avoid unintended differences in the results. Arrangements to protect confidentiality are also part of the statistical infrastructure: although, as noted elsewhere, confidentiality provisions in the ESCB differ from those between Eurostat and the national statistical institutes, the ECB (and before it, the EMI) has long participated in the Committee on Statistical Confidentiality set up under Regulation No 1588/90.

Later documents reaffirmed the need for cooperation. It was a feature of the Memorandum of Understanding agreed between the EMI Statistics Division and Eurostat shortly after these reports were endorsed by the EMI Council. Article 9 of the Community Statistical Law (Council Regulation (EC) No 322/97) obliges the Commission to cooperate with the EMI in statistical matters (references to the EMI are understood to include the ECB). Article 3 of the EU Council Regulation concerning ECB statistics (No 2533/98) requires the ECB to take into account Community and international statistical standards, and Article 5 obliges the ECB to cooperate in statistical matters with the Commission, involving the CMFB where appropriate. Recital 23 of the Regulation says that *"the ECB and the Commission will establish appropriate forms of cooperation"*, noting in particular the need to minimise the reporting burden. These obligations have been consistently met through statistical committees and direct institutional contact.

Organisational framework for the statistical function of the ESCB

The first two reports concerned organisational issues between the ECB/ESCB and the Commission/national statistical institutes. The third report covered organisation of work within the ESCB – essentially the respective roles of the ECB and the NCBs. The starting point was the provision in Article 5.1 of the Statute that the NCBs should "assist" the ECB in its statistical tasks, the provision in Article 5.2 that they should carry out the statistical tasks of the ESCB to the extent possible, and the requirement of Article 14.3 that NCBs, as an integral part of the ESCB, must act in accordance with the guidelines and instructions of the ECB.

The third report proposed that the ECB should take the lead in conceptual work, with close involvement of NCBs through the WGS (or its successor committee) and its established substructure in an advisory capacity. The NCBs (or in some cases other national bodies) should collect the data according to the ECB's instructions, since the national authorities are closest to reporting agents and best placed to chase up returns, ask or answer questions, take amendments, etc. The NCBs would then compile partial aggregates for transmission to the ECB, which would use them to compile aggregates for the euro area. The report noted that *"serious disadvantages would have to become apparent for this approach to be abandoned"*. It would of course be necessary to work to common statistical and compilation procedures throughout. The report recognised that the final stage, dissemination of the results (whether internally or publicly), would raise sensitive issues. These are discussed at length in the chapter on publication policy.

The report touched on data exchanges and other statistical contacts among NCBs; and on statistical relationships between the ESCB and other bodies (including the case in which NCBs continue to provide statistics for national accounts and other national statistical purposes, and for prudential supervision – activities of the kind foreseen in Article 14.4 of the Statute). The report also raised the issue of the relationship between the ECB and NCBs of non-participating Member States, noting that Article 47.2 of the Statute makes statistics an area of concern for the General Council, and concluded that *"statistical matters in the MU in Stage Three should be conducted in a way which makes it easy for [non-participating Member States] to prepare for joining the MU"*. Some of these issues are discussed further in the chapters on the legal framework (Chapter 18), publication policy (Chapter 22) and statistical relations with non-participating Member States (Chapter 46 in Part B).

Cooperation with international organisations

As required by the Statute (Article 5.1) and other legal obligations, the ECB (and before it the EMI) has also cooperated with international institutions in statistical matters, especially the BIS and the IMF. The Committee of Governors Secretariat, and the EMI for much of Stage Two, depended on the BIS's statistical databank as a main source of macroeconomic and financial data. A WGS report to the Committee of Governors (December 1993) set out arrangements to ensure continuity of access to the BIS databank in Stage Two. Given the flow of data between the two organisations, and their common membership, the EMI was careful to develop a data exchange system for the ESCB in close collaboration with the BIS (see Chapter 20). The BIS had also developed specialised databases of interest to the EMI/ECB (namely international banking statistics and international securities markets statistics), and it contributed to the development of the ECB's securities issues statistics, providing the data on international issues denominated in euro.

All 15 EU Member States prior to the May 2004 enlargement are members of the IMF (and so must provide data to the IMF), and most subscribe to the IMF's Special Data Dissemination Standard. Accordingly the ECB and IMF have a strong common interest in regular and consistent data provision by Member States. This includes setting definitions and standards, and common (or at least consistent) data exchange facilities. Shortly before the start of Stage Three the ECB and the IMF worked together to overhaul in line with the ECB's requirements the national monetary, financial and balance of payments data sent by euro area Member States to the IMF; for some of these data, and for detailed national data on international reserves sent to the IMF, the ECB provides a gateway, both for convenience and to ensure that the national data sent to the IMF are consistent with the national contributions to euro area aggregates. The ECB participates in IMF statistical committees and has contributed to IMF statistical manuals (as did the EMI). Like the Commission and the BIS, the IMF is regularly invited to attend ECB statistical committees.

Annex

Relationship of central banks with the European Statistical System (ESS)

In February 1992 the Commission issued a Communication on the evolution of the ESS. The Communication explained that *"The ESS is made up of all the government bodies which, at the various levels – regional, national and Community – are responsible for drawing up, processing and disseminating the statistical information needed for the economic and social life of the Community. The Community focal point for the ESS is … Eurostat which, in view of its scientific and technical responsibilities, already occupies a specific position within the Commission."* Section B of the Communication listed responsibilities and aims regarding statistics. Later sections covered principles of subsidiarity and partnership in the ESS (C); management and consultation structures of the Community statistical programmes (D); responsibilities and resources of the ESS (E); basic principles of Community statistics (F); and Eurostat's place among the Community institutions (G) and in the international statistical system (H). There is only one reference to central banks, in section E: *"The national statistical services, including statistical departments of ministries and central banks, will be requested to make provision for mobility periods in the careers of their officials, which would be spent with Eurostat."*

The Communication proposed a formal legal basis for *"the construction of a cohesive, flexible and efficient statistical system"*. This eventually took the form of Council Regulation (EC) No 322/97 on Community statistics. Community statistics are defined in the Regulation (Article 2) as *"quantitative, aggregated and representative information taken from the collection and systematic processing of data, produced by the national authorities and the Community authority in the framework of implementation of the Community statistical programme"*. Much of the preparatory work for Economic and Monetary Union described in Part A of this document had been done by the time the Council Regulation was adopted in February 1997. Areas of competence and close cooperation between the EMI and Eurostat, involving NCBs and government statisticians at national level, were well-established. Expressing these arrangements in a text which acknowledged central bank independence under the Treaty without implying the existence of two entirely separate statistical systems in the European Union proved however a delicate task.[59] In the final text of Regulation No 322/97, Recitals 17 and 18 explain central bank independence:

"(17) Whereas the Treaty has conferred certain statistical responsibilities on the EMI, which it shall exercise without seeking or taking instructions from Community institutions or bodies, from any Government of a Member State, or from any other body; whereas it is important to ensure appropriate coordination between the relevant tasks of the authorities at national and Community level which contribute to the production of Community statistics on the one hand, and the functions of the EMI on the other;

(18) Whereas national central banks, at the latest by the date of establishment of the ESCB, should be independent of Community institutions or bodies, of any government of

[59] The preparation of the Community statistical law is described in detail in Chapter 9 of Hans van Wijk's book. Defining the relationship with central bank statistical activities was not the only difficulty; others included the relationship between Eurostat and national statisticians, and protecting confidential data.

a Member State or of any other body; whereas in Stage Two of Economic and Monetary Union, Member States should start and complete the process to ensure the independence of national central banks;… ”

Article 9 makes plain that the EMI (for which read the ECB in Stage Three) and the NCBs are accordingly not subject to this Regulation. Nevertheless, the Commission (Eurostat) must cooperate closely with the EMI/ECB, and an NCB and Eurostat may conclude an agreement under which the NCB provides data for the purposes of Community statistics. Thus Article 9 reads:

“To guarantee the coherence necessary to produce statistics meeting their respective information requirements, the Commission shall co-operate closely with the EMI… The CMFB shall take part, within the limits of its competence, in this process of co-operation.

Although the EMI and the national central banks do not participate in the production of Community statistics, … following an agreement between a national central bank and the Community authority… without prejudice to national arrangements between the national central bank and the national authority, data produced by the national central bank may be used… by national authorities and the Community authority for the production of Community statistics.”

Similarly, Article 5 of the Statute requires the ECB to cooperate with the Commission: “*[the ECB] shall cooperate with the Community institutions or bodies*”. This obligation is reflected in Council Regulation (EC) No 2533/98 concerning ECB statistics (Recital 23 and Article 5).

Chapter 22

Publication policy

The ECB's standards of good practice in publishing statistics. Questions concerning publication of national contributions to euro area aggregates – timing, handling revisions, avoiding potentially confusing terminology.

The ECB has certain statutory obligations to publish statistical information. Article 15.2 of the Statute requires a weekly consolidated financial statement of the ESCB (or of the Eurosystem in the current terminology); and Articles 15.1 (*"publish reports on the activities of the ESCB at least quarterly"*) and 15.3 (the annual report) clearly imply publication of statistics. The only legal restrictions imposed on publication of statistics by the ECB concern the disclosure of confidential statistical information in Article 8 of Council Regulation (EC) No 2533/98 (confidential statistical information means information concerning an entity which is identifiable, either directly or indirectly through deduction using "reasonable" means).

Although the requirements of the Statute must be met, and all reasonable efforts must be made to prevent the unauthorised disclosure of confidential statistical information, these legal considerations do not drive the ECB's and the Eurosystem's approach to publication. The most important consideration is the one suggested in the EMI President's foreword to the implementation package booklet: "*Statistical information is necessary to decide what policy actions to take, to explain them publicly, and to assess their effects after the event. Unless policy can be justified and explained, it will not be understood and the institution carrying it out will lack credibility.*" It was foreseen that the ECB's main purpose in publishing statistics would be to support in this wide sense its policy actions.

A year earlier, in the July 1995 WGS report to the EMI Council on the organisational framework for the statistical function of the ESCB, the WGS had touched on the question of publication:

"*Good statistical practice*

The ESCB should adopt good statistical procedures, following and influencing best international standards and practice as appropriate. The constituent parts of the ESCB should not publish inconsistent statistical series, which cause confusion, without good reason. Transparency (access to information across the entire system, so far as possible) is desirable. ESCB data should be available to the public unless there are strong reasons against. …

Dissemination of data needs careful handling. The ECB will be the prime source of at least monetary and financial data compiled at MU level. In publishing related national data, NCBs should ensure consistency with the ECB's data both in content, unless there are good reasons to the contrary, and timing. This consideration will make the strict observance of timetables for the submission of data all the more important."

Following internal discussion in the EMI, these ideas were further considered by the WGS in November 1996 and more fully in June 1998. The focus of the discussion was publication of statistics relating to the euro area by the ECB. The question of publication of related national data by NCBs, which proved more difficult in practice, is discussed later.

The EMI suggested, and the WGS endorsed, the following good practices:

- data influencing the ECB's policy actions will need to be published in a timely fashion, so that the ECB's actions can be publicly explained and markets kept continuously informed about relevant developments;
- market-sensitive information should be published as soon as it is available and in a way which gives market participants simultaneous access to it and minimises the risk of leaks;
- all information should be released in a way which gives equal treatment to countries across the euro area;
- the same data published and subsequently reproduced by different organisations should be the same;
- where a policy-sensitive statistic is to be published by one organisation, others should not publish parts of it beforehand (e.g. NCBs should not publish national MFI balance sheets before the euro area aggregates are published);
- data published at different frequencies should, so far as possible, be consistent;
- partial and whole aggregates published by the same or different organisations should be consistent. (The point here concerns series which are a component of other series – e.g. national statistics in a euro area aggregate, or monetary statistics integrated into a set of financial accounts);
- publication practices should conform to the standards for the dissemination of data established by the IMF so far as possible, and enable participating Member States to meet the IMF's standards in publishing national data so far as it is relevant for them to do so.

Most of these points of good practice are self-explanatory. The fifth bullet point, relating in practice to MFI balance sheet and monetary statistics, was sufficiently important (and disputed) to merit a mention in the Guideline on money and banking statistics (first adopted as ECB/1998/NP27), where Article 1.7 reads: "*NCBs shall not publish national contributions to the monthly euro area monetary aggregates until the ECB has published these aggregates. Where NCBs publish such data, they shall be the same as those that contributed to the last published euro area aggregates. Where NCBs reproduce MU aggregates published by the ECB, they shall reproduce them faithfully.*" The monthly monetary aggregates were the only data published by the ECB thought to be sufficiently market-sensitive to need this treatment, in view of the reference value for broad money and its special role in the ECB's monetary policy strategy. The intention was to prevent the market from projecting an outturn for the euro area from outturns in some Member States, and to avoid any possibility that the euro area aggregates might be undermined by uncoordinated revisions of national contributions. The embargo on publication of national data, which are inevitably available before the ECB has compiled the euro area aggregates, would also de-emphasise the national data in favour of the euro area totals, a desirable development since it is the latter which influence monetary policy decisions.

It was important to give the national data the right name for presentational reasons and to avoid public confusion. Holdings of broad money by residents of a Member State in the euro area cannot be calculated from the balance sheets of MFIs (including the NCB) located there, because residents may hold monetary deposits with MFIs located elsewhere in the euro area, and may hold negotiable monetary instruments issued by

MFIs located anywhere in the euro area. Thus the balance sheet data from (for example) French MFIs transmitted in aggregate by the Banque de France to the ECB are not French money stock. Only the aggregates for the euro area as a whole compiled by the ECB – taking account of cross-border deposit holdings within the euro area, and adjusting as much as possible for holdings of negotiable monetary instruments – are valid measures of money stock. A similar point applies to MFI lending. The national data are national contributions (i.e. contributions of MFIs located in the Member State concerned) to the euro area aggregates, and not the share of residents of the Member State in euro area money holdings or MFI lending.

The idea of a national contribution is particularly difficult in the case of negotiable monetary instruments. An NCB knows the amount of such instruments issued by resident MFIs, and how many of these are held by resident MFIs. But it does not know how much of such paper issued by resident MFIs is held by MFIs elsewhere in the euro area, nor how much is held outside the euro area. Therefore it cannot calculate how much resident MFIs are contributing to euro area money stock by issuing negotiable monetary instruments. The WGS thought it important that national contributions should add up to the euro area aggregates (ignoring the adjustment for non-resident holdings of marketable monetary instruments made by the ECB at euro area level). They will do so if each NCB deducts from total liabilities of resident MFIs in the form of such paper, their total assets in the form of such claims on other MFIs wherever located in the euro area. Conceivably this approach might yield a negative national contribution to the negotiable paper component of the euro area aggregate – a presentational disadvantage considered worth accepting in the interests of aggregability.

National contributions to euro area balance of payments statistics are, in brief, extra-euro area transactions of residents plus, for the portfolio investment account, net acquisitions by residents of securities issued by non-residents of the euro area and residents' net transactions in securities issued anywhere in the euro area. The ECB compiles the balance of payments of the euro area by summing these contributions. (The calculation of portfolio income debits in the investment income account follows a similar approach.) These national contributions would be difficult to interpret. Member States do publish a full national balance of payments, including cross-border transactions within the euro area, not least to meet international obligations. Although in principle adding up national net balances in the various balance of payments categories would give the corresponding net balances for the euro area, there are large errors in recorded cross-border transactions within the euro area, so they do not cancel out. In practice it is impossible to reconcile national balance of payments statistics with the euro area balance of payments, and unnecessary to have rules concerning the publication of national data. The ECB has however had from the start a revisions policy for the euro area balance of payments: recent monthly data are revised quarterly, when the more detailed quarterly data are published to which they are aligned; monthly and quarterly data for earlier periods may be revised at the same time. Eurostat publishes quarterly data for the balance of payments of the European Union as a whole (there is no monthly balance of payments for the European Union), and the ECB and Eurostat work together to ensure consistency between the two sets of quarterly data, though in practice it is difficult to reconcile them. All these procedures for publishing balance of payments statistics were agreed in 1998.

Presentation of the effective exchange rate was agreed in 1999; the ECB had not developed an EER for the euro at the very start of Stage Three. (Chapter 13 has already explained the concept of the EER, in nominal and real terms.) Although the national currencies of euro area Member States ceased to be traded in foreign exchange markets, except as notes and coin, at the end of 1998, nevertheless the notion of changes in a national effective exchange rate has retained some meaning. For example, a change in the pound sterling (all other exchange rates held constant) would have a different effect on trade flows for Ireland and Finland; probably in neither case would the calculated change in the EER of the euro capture the effect. Similarly, a rise in prices or labour costs in Germany – everything else held constant – would probably have different effects on trade flows in the Netherlands and Greece.

This matter was not one of mere passing interest; it would have a lasting role in national forecasting models and analysis of national economic developments. However, references to the real EER of the punt or markka had the potential to confuse, and even to undermine the euro in the early part of Stage Three. The STC concluded that the term "national competitiveness indicator" should be used and the term "real EER of the X" (X being the former currency of a participating Member State) should be avoided; this conclusion was incorporated in a "common understanding" in June 1999. The MPC and the WGS also agreed that NCBs, in calculating national competitiveness indicators, would apply the methodology used by the ECB to calculate the EER of the euro in the absence of strong reasons to the contrary, while accepting that research institutes and other bodies could hardly be prevented from using a different methodology if they wished to do so, since no single approach is demonstrably the best for all purposes.

Annex

National contributions to euro area statistics

National contributions to euro area aggregates, which are designed to facilitate aggregation and consolidation at euro area level, may not correspond to familiar national aggregates. They may nevertheless be of sufficient interest to merit publication, with an explanation to avoid confusion with conventional national aggregates. Some examples follow.

- **Broad money (M3), other than currency in circulation – deposits, shares/units issued by MMFs, money market paper and short-term debt securities issued by other MFIs**

  National contributions are deposits (of the relevant maturity) held by domestic and other euro area residents, other than MFIs and central government, with domestic MFIs

  plus issues of shares/units by domestic MMFs and issues of marketable monetary instruments by other domestic MFIs

  minus domestic MFIs' holdings of all such instruments issued by MFIs anywhere in the euro area.

  The MMF shares/units and marketable monetary instruments categories may conceivably show a negative national contribution.

  National contributions defined in this way do not correspond to domestic residents' holdings of money, since they do not reflect domestic residents' cross-border holdings. When aggregated across the euro area, they overstate M3 because the full adjustment for holdings by non-residents of the euro area of shares/units issued by domestic MMFs and of marketable monetary instruments issued by other domestic MFIs can only be performed on the aggregate by the ECB.

- **Broad money (M3), banknotes**

  The link between banknotes issued and the monetary income of the Eurosystem and its allocation led the WGAI/AMICO to consider carefully the accounting treatment of euro banknotes. Regardless of the actual distribution of the banknote issue (less banknotes returned), the respective amounts reported on the balance sheets of the Eurosystem central banks are determined by their shares in the ECB's capital (the Capital Share Mechanism). 8% of the total amount in issue is attributed to the ECB, with a proportionate reduction in the shares of the NCBs. The difference between what the ECB and the NCBs record as banknotes in issue on their balance sheets and their actual net issue of banknotes is matched by offsetting entries elsewhere in their balance sheets. The accounting is neutral for the Eurosystem as a whole.

  Where NCBs include bank notes in issue when publishing their national contribution to euro area M3, they publish the amount according to the Capital Share Mechanism, i.e. the amount recorded on their balance sheet. They may add their share in the 8% of the total issue notionally allocated to the ECB. This national contribution is unlikely to correspond to the amount they have actually issued, or to euro banknotes in domestic circulation. For the latter amount, needed for national financial accounts, NCBs (or government statistics offices) make estimates based on the value of consumer spending and estimated national money holdings in other forms. Also taking account of estimated euro banknote holdings outside the euro area, the ECB ensures that national estimates are consistent with the total in circulation.

The above relates to euro banknotes, and was decided in 2002. Since the end of 2002, remaining outstanding amounts of banknotes in the former national currencies have been excluded from M3 and recorded in NCB statistical balance sheets (if they have not already been written off) in “remaining liabilities”.

- **Balance of payments**

All euro area Member States continue to compile a national balance of payments. The national contributions to the euro area aggregate however bear little resemblance to it.

For most balance of payments items, the national contribution to the euro area aggregate is confined to transactions of residents with non-residents of the euro area. Cross-border transactions within the euro area are ignored. For portfolio investment liabilities in the financial account, the national contribution is the net increase in domestic issues outstanding (issues less redemptions) *minus* the net reported increase in domestic residents’ holdings of domestic and other euro area issues. Summing these amounts across the euro area as a whole gives an estimate of portfolio investment inflows from outside the euro area. The calculation is made this way because portfolio inflows cannot be measured directly.

The same approach is followed in compiling portfolio investment liabilities in the international investment position of the euro area. In the current account of the balance of payments, payments of interest, etc. on portfolio investment liabilities held outside the euro area are calculated in a somewhat similar way: the national contribution is total cross-border payments of interest, etc. *minus* residents’ reported investment income receipts from all euro area sources.

- **National competitiveness indicators**

National competitiveness indicators show what change in the euro, with all other exchange rates, costs and prices unchanged, would have the same effect on national trade in manufactured goods as a given combination of exchange rate, cost and price changes (which may include cost and price changes in other participating Member States).

The ECB calculates nominal and real effective exchange rates directly, from data relating to the euro area as a whole. NCIs are therefore not national contributions to the ECB’s calculation of the effective exchange rate for the euro. Nevertheless they bear some resemblance to the national contributions described above and, in accordance with an agreement in June 1999 following discussion in the STC and the MPC, use the same methodology as the effective exchange rate calculation and, to avoid confusion, must be described as competitiveness indicators, not as exchange rates.

Part B

Enhancements to euro area statistics, 1999-2003

Chapter 23

Introduction and overview of Part B

The need to extend and improve the initial statistical provision for the start of Stage Three which aimed at meeting the essential needs of monetary policy. Replacing or reinforcing short-term approaches. Progress towards a complete set of economic and financial accounts for the euro area. Needs for improvement in the light of experience as particular deficiencies became apparent. Statistics to meet emerging policy and analytical requirements in the ECB. Measures to strengthen the statistical infrastructure. Preparations for enlargement of the euro area (Greece, January 2001) and the European Union (May 2004), the latter giving new importance to statistics from EU Member States outside the euro area. Looking further ahead.

The first part of this document has described the provision of statistics for the start of Stage Three of Economic and Monetary Union, including in those areas where preparations had been made by 1998 but for various reasons the statistics did not become available until some time after January 1999. Part B describes enhancements between the start of Economic and Monetary Union and the end of 2003, made in the light of experience during these first five years. Some of these changes have been procedural – the introduction of a merits and costs analysis to assess new statistical requirements and to find the best way of meeting them is an example; and others have strengthened the statistical infrastructure, especially statistical information systems and the legal basis for the ECB's statistical work. Most however have extended and otherwise improved the available data. As in Part A, the emphasis is on statistical information collected and compiled by the ESCB to meet the ECB's policy requirements. There have however been important improvements to data for which the national statistical institutes (in most Member States) and Eurostat (at European level) are responsible, and these also merit attention.

The Statistics Committee, which succeeded the WGS shortly after the ECB was established, continued the practice of submitting regular reports to the Governing Council which the WGS had begun following publication of the implementation package. In Stage Three these have been called quality and availability reports instead of reports monitoring implementation. These reports continued the twice-yearly frequency in 1999, but adopted an annual frequency in 2000, timed at around mid-year in order to influence budget preparations in the ECB and NCBs, and indeed in national statistical institutes and Eurostat where relevant. Thus the STC submitted quality and availability reports in May and December 1999, and in July 2000, July 2001, and July 2002. The 2003 report came later in the year. The reports all took the form of an overview paper and, as background, detailed reports on the main areas of statistics. Because the conclusions of the detailed reports on general economic statistics implied work for Eurostat and the national statistical institutes, these reports were widely circulated in the European Statistical System; the report in July 2000 formed the basis for the ECB's restatement of statistical needs, *"The ECB's requirements in the area of general economic statistics"* (published in August 2000), and also influenced the contents of the Action Plan on statistical requirements for Economic and Monetary Union adopted by the ECOFIN Council in September 2000. This introductory section draws on the summaries of gaps and deficiencies contained in these reports. The detailed chapters which follow describe the shortcomings and the steps taken to remedy them.

The WGS had warned in the April 1998 monitoring of implementation report about the likely quality of data at the start of Stage Three: *"While all involved aim at good quality properly articulated monetary union aggregates, no amount of effort can provide at the start of Stage Three these aggregates with the same established level of availability, detail, quality and continuity as … central banks currently have available at national level"*. It will be recalled that the implementation package had set out to provide only the essentials for the conduct of policy at the start of Economic and Monetary Union, because the time for preparation was short (and could have been shorter than it proved to be), competing claims on reporting agents and on the EMI and the NCBs were strong, and important information could not be known until late in the preparation phase. This included the initial composition of the euro area, of central importance to preparations for consolidation and aggregation, and the ECB's monetary policy strategy, which clearly could affect information requirements. It was also relevant that the EMI had no specific legal powers to require statistical preparations to be made. In accordance with the mandate of the WGS, plans focused on meeting the needs of monetary policy, with little attention to the ECB's other possible policy interests, notably financial stability. While the implementation package recognised the importance of not changing requirements unless strictly necessary during the rest of the preparation phase, it was apparent at the time the implementation package was being drafted, and well before Stage Three started, that enhancements would sooner or later be needed.

Replacing or reinforcing short-term approaches

Given the shortage of time and resources, the EMI and the WGS accepted in the July 1996 implementation package that short-cut temporary solutions would be necessary in some areas of statistics. These were interest rates paid and charged by banks in business with household and business customers, securities issues, statistics relating to non-monetary financial intermediaries (of which the most important turned out to be collective investment institutions, other than money market funds which form part of the MFI sector), and the international investment position (external assets and liabilities of the euro area). Quality and availability reports regularly noted the deficiencies in these areas. Chapters 24-27 describe the efforts made in the early years of Economic and Monetary Union to remedy them. The largest effort went into improving interest rate statistics, which emerged as a new reporting obligation from the beginning of 2003 (but with transitional arrangements) in Regulation ECB/2001/18 (Chapter 24).

Towards a complete set of accounts

The implementation package also accepted that Monetary Union Financial Accounts would develop from modest beginnings. Since financial accounts are derived statistics, developments in them benefit from improvements elsewhere and indeed are dependent on them. The implementation package stated that MUFAs would draw on money and banking, securities issues, and balance of payments (together with international investment position) statistics covering the euro area, and on national financial accounts required under the ESA 95.

Of these sources, only money and banking statistics were available early on in appropriate form. By contrast, it took much time and effort to develop the last source (national financial accounts), because of many derogations, the legal obligation on Member States to compile only annual data, and the national basis of the ESA 95 accounts. Data on securities issues by euro area residents became available in late 1999 but without information on holders; consequently the table on financing and financial investment of the non-financial sectors in the euro area that was introduced in May 2001, the embryonic financial accounts for the euro area, lacked (and still lacks) information on who holds securities issued by the non-financial sectors in the euro area. Meanwhile, valuation problems affected statistics of share issues and outstandings: publishable data for this important area of financing were not available until 2003. For reasons explained in Chapter 29, much effort was necessary to adapt the euro area balance of payments statistics for use in the euro area financial accounts. The balance of payments results need to fit reasonably well with data relating to other (euro area) sectors in the MUFAs – while an exact fit is too much to hope for, a large difference is unsatisfactory. Since full MUFAs were not available in the early years of Economic and Monetary Union, this issue did not give rise to comment in quality and availability reports, but it did receive attention from ESCB statisticians, together with the related issue of the detail in balance of payments statistics needed for use in the financial accounts. For the international investment position, frequency was another important issue, since the MUFAs need quarterly data on stocks of external assets and liabilities. Quarterly accounts for the general government sector are also an important part of MUFAs. The quarterly requirement in the ESA 95 was limited to certain items of expenditure. At the start of Economic and Monetary Union (and indeed until 2003), quarterly data on general government current and capital as well as financial transactions in the euro area were seriously incomplete. Successive quality and availability reports noted this obstacle to economic policy analysis in the euro area, and the Monetary Committee/ EFC group on statistics, whose formation was noted in Part A, saw quarterly economic and financial accounts of government as a high priority. Chapter 30 describes the work in 1999-2003 to establish good quarterly government accounts data for the euro area. In this field, as elsewhere in financial accounts, the ECB and the Statistics Committee worked closely with Eurostat, the CMFB and Eurostat's Financial Accounts Working Party.

Natural extensions of financial accounts by sector are top-to-bottom sectoral accounts. For each economic sector, these record income and current expenditure (and thus saving, as the difference between the two); capital expenditure (and thus, after inclusion of capital receipts, net lending or borrowing); and the lending and borrowing transactions which finance the current and capital account transactions. In cooperation with Eurostat, the ECB began work on quarterly sectoral accounts in 2002. Chapter 31 records the early stages of this effort, which will provide policy analysts with a complete quarterly record of economic and financial transactions by each economic sector. The first aim is sectoral accounts for households and non-financial corporations, general government and the rest of the world (so far as possible consistent with the balance of payments and international investment position, as noted above).

The initially underdeveloped state of these statistics was regularly remarked on in quality and availability reports. In addition the reports sought improvement in the areas mentioned below.

Other needs for improvement in the light of experience

The implementation package (and subsequently Regulation ECB/1998/16) required sectoral detail on holdings of deposits and MFI lending only quarterly. However, when the analytical and policy interest in sectoral breakdowns proved to be stronger than had been expected, an increase in the frequency of sectoral breakdowns to monthly became a user requirement. Accordingly, one innovation in Regulation ECB/2001/13, which replaced Regulation ECB/1998/16 (as amended) in January 2003, was monthly (rather than quarterly) sectoral breakdowns of items in the MFI balance sheet (Chapter 32). A more radical innovation in ECB/2001/13, reflecting another recurrent theme in quality and availability reports, concerned the derivation of flows data from reported stocks. The implementation package, and subsequently Regulation ECB/1998/16, required MFIs to report balance sheet outstandings. NCBs were to adjust the balance sheet outstandings using available information (with no specific obligation on MFIs to provide it) in order to compile flows or transactions data, or to enable the ECB to do so. In practice these supplementary data were uneven in quality, casting some doubt on the reliability of the flows from which the monetary aggregates and, especially, some of the counterparts were compiled. Indeed, until September 2001 it was not possible from the information available to provide flows data for the fuller quarterly statistics; in their absence it was not legitimate to calculate growth rates for, for example, MFI lending to households or non-financial corporations. Regulation ECB/2001/13 obliges the MFIs themselves to report certain information used to derive flows, with the intention of putting the calculation of monetary flows and growth rates on a stronger footing (Chapter 33). The weak basis for these adjustments also had implications for the balance of payments and the financial accounts, where the ESA 95 requires a distinction to be made between “transactions” and other changes in stocks.

Deficiencies in data relating to marketable securities was a recurrent theme in quality and availability reports. Lack of information on holdings of such securities caused inward portfolio investment stocks and flows in the international investment position and balance of payments, and associated income flows in the balance of payments current account, to be estimated by residual using a roundabout method, making error in the aggregates almost inevitable. Tracking holdings by non-residents of the euro area of shares/units in money market funds, and of short-term debt securities issued by banks, presented difficulties for the monetary statistics, requiring the development of a new approach in 2001 and substantial revisions to the data (Chapter 34). Deficiencies or gaps of various kinds in statistics relating to securities were noted in successive quality and availability reports; they were the subject of much remedial work, and an important part of the justification for developing a comprehensive securities database (Chapter 40), which, when operational, will greatly strengthen the statistical infrastructure.

The purpose of monthly balance of payments statistics as stated in the implementation package was to show the main items affecting monetary conditions in the euro area, and the exchange markets. This purpose implied a need to link the monetary and balance of payments statistics in a monetary presentation of the balance of payments. This in turn implied a distinction in relevant parts of the balance of payments between positions and transactions of euro area MFIs on their own account, and positions and transactions of other sectors in the euro area. Lack of an MFI/non-MFI breakdown (where the breakdown refers to the euro area participant) in direct and portfolio investment in the implementation package requirements was an obstacle to linking the monetary and balance of payments statistics. Interest in a monetary presentation of the balance of payments was noted in quality and availability reports and confirmed by the response to a paper in 2000 reviewing and reaffirming the ECB's need for monthly balance of payments statistics. Chapter 35 discusses this issue further. There were other obstacles to linking the monetary and balance of payments statistics in an accurate way; Chapter 35 also explains how these were overcome. The ECB first published a monetary presentation of the balance of payments in the June 2003 Monthly Bulletin.

Perhaps the most serious deficiencies in 1999-2003 lay in the area of general economic statistics. Although the ESA 95 (Council Regulation (EC) No 2223/96) and the short-term statistics Regulation (Council Regulation (EC) No 1165/98) did much to improve the availability of economic statistics, the derogations, long deadlines and omissions meant that the general economic statistics for the euro area available to the ECB were in many respects inferior in content, frequency and timeliness to similar data on the United States or the United Kingdom or indeed to the national data available to some euro area NCBs before 1999. Comments to this effect in quality and availability reports, the publication of critical reports,[60] and comments by the Monetary Committee/EFC statistics group leading to the Commission/ECB Action Plan in September 2000, were all intended to stimulate improvements in this area. Quarterly national accounts, quarterly data on government transactions, and labour market statistics, short-term business statistics and trade statistics were seen as priorities for improvement. The Monetary Committee/EFC group, with strong support from the ECB, also sought better data on services. Chapter 36 summarises the work in 1999-2003 to improve this area of statistics in which the ECB took a close interest as a user; in most cases data supply was the responsibility of Eurostat and the national statistical institutes.

Statistics to meet new analytical requirements in the ECB

As noted earlier, the implementation package considered almost exclusively statistical needs for the conduct of monetary policy (and, in the balance of payments area, also foreign exchange management). In 1999-2003 other policy and analytical needs of the ECB were largely met by adapting available data rather than by developing new statistics. However, other policy and analytical needs were taken into account in the design of new statistics developed primarily for monetary policy purposes, notably the new MFI balance sheet and interest rate Regulations.

These "new" policy and analytical needs concerned financial stability and the structure of the banking system in the euro area (Chapter 37) and the international role of the euro (Chapter 38). The existing data sources used were often ECB statistics collected for other purposes, supplemented by data from other central banking, supervisory or other sources. New sources of data for these purposes began to be developed at the end of the period.

[60] *"The ECB's requirements in the area of general economic statistics"* (August 2000); articles and Boxes in the ECB's Monthly Bulletin, especially in the January and October 1999, August 2000, April 2001, and April, June and September 2003 issues.

Strengthening the infrastructure

In the new circumstances of Economic and Monetary Union, and also as a consequence of changes in business practices (notably cash pooling and settlement on a net basis), the collection of balance of payments data from bank settlements reported on behalf of customers came under strain in 1999-2003, and much attention was devoted to seeking alternatives or otherwise limiting the damage to balance of payments and related statistics (Chapter 39). Although developed for a range of purposes, the Centralised Securities Database (CSDB) (Chapter 40) will permit a new approach to collecting statistics on the relevant parts of the financial account of the balance of payments and the international investment position, reducing reliance on bank settlements sources.

The statistical infrastructure, in many respects rudimentary at the start of Economic and Monetary Union, was strengthened in 1999-2003. New or extended legislation covered some statistics that had not been subject to legal instruments at the start, as well as the new requirements as they were introduced (Chapter 41). The ECB remained reluctant however to incorporate statistical requirements in a legal instrument until they had sufficiently matured. Chapter 42 describes the improvements to statistical information systems introduced in these five years. Their purpose was partly to strengthen or replace temporary facilities installed to meet essential needs at the start of Stage Three, partly to meet needs which could not be satisfied immediately, and partly to cater for new developments and the expanding range of statistics.

Seasonal and working day adjustment were introduced, where appropriate, as soon as sufficient data became available. The ECB’s statutory obligation to keep the reporting burden as low as possible was formalised in a merits and costs procedure for assessing new or substantially changed statistical requirements, as explained in Chapter 43. Following a request from the Monetary Committee/EFC group on statistics, the ECB and the Commission developed operational means for assessing the quality of statistics (Chapter 44). This chapter also discusses the wider use of international accounting standards, which are expected to become obligatory for listed companies in the European Union from 2005, and its implications for statistics. Chapter 45 concerns the further development of cooperation with Eurostat, leading to a new Memorandum of Understanding in March 2003.

Enlargement

An important development at the start of 2001 was the expansion of the euro area to include Greece. Since all EU Member States, and not only those participating in Economic and Monetary Union, have statistical obligations in Stage Three (as explained in Chapter 46, and earlier in Chapter 18 in Part A), the enlargement of the European Union in 2004 was also an important development that gave rise to much preparatory work in the Commission and the ECB.

Looking ahead

In December 2003, at the very end of the period covered by this book, ECB economists prepared a paper concerning remaining gaps in the areas of statistics for which the ECB has or shares responsibility at European level, from their perspective as users of the data for policy analysis and research. The gaps which they indicated, together with ECB statisticians' own medium-term work plans, are discussed in Chapter 47, which concludes this document.

Replacing or reinforcing short-term approaches

Chapter 24

MFI interest rates

The importance of bank (MFI) interest rates. The need to replace a short-term approach adopted at the start of Stage Three. Main features of a new reporting scheme (implemented by Regulation ECB/2001/18, effective January 2003). The procedure for selecting reporting agents and maintaining the sample. The frequency and timeliness of reporting. How new statistical requirements were established and the Regulation was prepared.

Changes in bank interest rates are one of the chief ways in which the ECB's monetary policy influences economic agents in the euro area. They affect the cost of borrowing, and also the yield on the interest-bearing components of money and therefore the amount of money which people wish to hold. Moreover, the level of bank interest rates, given the importance of MFIs in financial intermediation in the euro area, has a sizeable impact on the income and outgoings of the non-financial sectors in the euro area economy; the ECB needs to know about the sectoral effect of monetary policy, as well as its overall impact. Margins between borrowing and lending rates are also relevant to financial stability and structural banking issues.

Timely and reliable information about bank interest rates on both sides of the balance sheet is therefore important to the ECB's functions. Information about wholesale market rates paid and charged by banks is readily available; because the market is a single one, wholesale rates are harmonised, and available almost continuously. This is not so for rates paid and charged by banks in business with personal and non-financial business customers, which are not available from market sources, though some rates may be advertised. Here the market is fragmented, with so far limited cross-border business. Numerous products exist, by no means standardised, reflecting national circumstances and traditions. Rates on such products may not be comparable across countries, because the features of the financial instruments concerned may differ in important respects. Methods of computing interest rates, and the approach to charges and commissions, may also vary across Member States.

For these reasons bank interest rates (other than wholesale market rates) are a difficult area. Given the limited time available up to the start of Stage Three, the July 1996 implementation package proposed a short-term solution for bank interest rates, with a long-term approach to be developed after the start of Economic and Monetary Union. The short-term approach consisted of selecting, from the large number of interest rates available, a few broadly comparable rates on approximately standard financial instruments (e.g. three months' time deposits; housing loans), and averaging these across the euro area, using as weights the balance sheet totals to which they related. In the event ten such instruments were chosen, from the assets and liabilities sides of the balance sheet. Existing data were used; there was no obligation on MFIs to report interest rate data for this purpose. The ECB published euro area average rates derived in this way with a warning about the limited degree of comparability and advice to pay attention to changes in them rather than to the calculated levels, which might well reflect peculiarities in the available national data. This information was supplemented by existing data on a wider range of instruments thought to be important in national "retail" banking markets; no attempt was made to standardise or average these. (All of this was explained in Chapter 8 in Part A.)

In practice the short-term solution served at least the monetary policy function as well as could have been hoped. The calculated average rates responded in a plausible manner to the ECB's monetary policy initiatives. Except in the most approximate way, however, it was not possible to use the results to analyse the sectoral impact of monetary policy, nor to use the averaged levels to investigate financial stability issues, because the levels were much influenced by compositional differences within each of the ten categories of financial instrument.

A new reporting scheme

The Working Group on Money and Banking Statistics (WGMBS) began work in 1999 to develop better interest rate data usable in connection with all the ECB's functions. It was recognised that the new data would serve other purposes, so a wide range of potential users were consulted about the data: for example, an application of the result, only indirectly related to the ECB's functions, concerned the valuation of financial intermediation services for national accounts purposes under the ESA 95.[61] The preparatory work ended with adoption by the Governing Council of Regulation ECB/2001/18 in December 2001. Reporting MFIs had a full year to implement the new MFI interest rate statistics; the first data under the Regulation related to January 2003. Substantial further work was needed in 2003, which was regarded as a transitional year, to achieve results of publishable quality; the first published aggregates appeared in December 2003. The enactment of a regulation addressed to reporting agents was itself an innovation in this area; previously there had been no ECB regulation imposing an obligation to report interest rates.

The main features of the reporting requirements are as follows:

- MFI interest rate statistics cover interest rates applied by resident credit institutions and other institutions to euro-denominated[62] deposits and loans vis-à-vis households and non-financial corporations resident in the euro area.[63] The reporting framework applies to MFIs other than central banks and money market funds.

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[61] Interest flows are treated as transfers in the national accounts, and do not contribute to GDP (though cross-border interest flows do affect GNP). Fees and commissions paid for financial services – including for the taking of deposits and granting of loans – do however contribute to GDP. The difficulty for national accounts statisticians is to identify the fee/commission element where, as is often the case, bank charges are implicit in interest rates. Although the national accounts application was not a primary influence on the design of the new MFI interest rates, their introduction will contribute to better national accounts data, and the Commission was duly consulted on their design.

[62] Non-participating Member States are not bound by the Regulation but may volunteer the data. Where they do, the data relate to business denominated in national currency.

[63] For non-participating Member States providing the data, this means resident in the same country as the MFI.

- 45 indicators are provided. The indicators cover the essential instrument categories for both deposit liabilities and loans, with separate interest rate data on outstanding amounts and new business. The required breakdowns are shown in the annex to this chapter, taken from Appendices 1 and 2 to Regulation ECB/2001/18. For each instrument category, NCBs provide an average interest rate weighted by the volume of business. For outstanding amounts the weights are based on MFI balance sheet statistics; in most cases separate data must be collected on the volume of new business.
- For each of these instrument categories, reporting agents provide the "annualised agreed rate", i.e. the interest rate agreed between the reporting agent and the household or non-financial corporation for a deposit or loan, converted to an annual basis and quoted as a percentage per annum.[64] The annualised agreed rate should cover all interest payments on deposits and loans, but no other charges such as the cost of inquiries, administration, preparation of the documents, guarantees, and credit insurance. In order to monitor other charges related to loans, for consumer credit and loans to households for house purchase the "annual percentage rate of charge" (APRC) is collected in addition to annualised agreed rates. The APRC covers interest rates and other (related) charges. The difference between the APRC and the annualised agreed rate reflects other loan charges. As noted above, this information is relevant to national accounts as well as to conditions in the banking market.
- MFI interest rate statistics are provided in respect of both outstanding amounts and new business. Outstanding amounts are the stock of all deposits placed by customers with MFIs and the stock of all loans granted by MFIs to their customers. New business is any new agreement in the reporting period between the customer and the MFI, i.e. a financial contract specifying for the first time the interest rate on a new deposit or loan, or a new contract concerning existing deposits and loans. In a departure from MFI balance sheet reporting conventions, the whole amount of a loan which may be drawn down in tranches is to be included in new business when the terms are agreed, and not as the tranches are drawn.
- Interest rates on overnight deposits, deposits redeemable at notice, and overdrafts may be rates paid or charged on a particular day (at the end of the month), or may be calculated implicitly by dividing interest accruing over the month by the relevant average amount of deposits or loans in the month. Other rates are end-month rates.
- For overnight deposits, deposits redeemable at notice, and bank overdrafts, the whole amount outstanding is regarded as new business.
- The 45 categories (14 on outstanding amounts, 31 on new business) cover all relevant business in the euro area. The aim is to achieve comprehensive coverage of banking business denominated in euro with households and non-financial corporations in the euro area. The Regulation recognises, however, that some reporting agents will have nothing to report in some categories, because they undertake no business of that type. Where they do have business, even if the amount is small, they are to report it if they have been selected to report (see below).

[64] The narrowly defined effective rate (NDER) may be used instead of the annualised agreed rate. The difference between the NDER and the annualised agreed rate lies in the method for annualising interest payments. The NDER is equivalent to the interest rate component of the annual percentage rate of charge (APRC) in Community legislation on consumer credit.

Procedure for selecting reporting agents and maintaining the sample

The reporting population for the MFI interest rates comprises credit institutions and other institutions classified as MFIs, excluding central banks and money market funds. In order to select from this potential reporting population the institutions which actually have to report, NCBs apply either a census or a sampling approach. If they choose the census approach, all the relevant institutions must report. NCBs which choose instead to sample must stratify the potential reporting population, choosing any number of strata with the aim of achieving homogeneity (in terms of the variance of reported interest rates) within each stratum. NCBs then select reporting agents at random from all institutions in the stratum (recommended practice), or alternatively select the largest institutions within each stratum. The sample must be reviewed periodically to allow for changes in the MFI population and other changes in the characteristics of the reporting agents. The Regulation stipulates a minimum sample size for each Member State.

Frequency and timeliness of reporting

The aim is to permit so far as possible simultaneous analysis of MFI balance sheet statistics, monetary aggregates, and MFI interest rates for the first Governing Council meeting of the month. This requires monthly interest rate data. To avoid undue pressure on reporting agents and NCBs, the Regulation requires MFIs to submit the interest rate data to NCBs such that the NCBs may deliver the national aggregated data to the ECB by the 19th working day after the reference month (the corresponding deadline for MFI balance sheet data is the 15th working day).

The monthly frequency and the deadline apply to interest rates both on new business and on outstanding amounts. Interest rates on outstanding amounts of overnight deposits, deposits redeemable at notice and bank overdrafts are in any case treated as interest rates on new business. Although interest rates on outstanding amounts may show a degree of inertia, monthly data are required because of the importance of variable rate business. Monthly data on new business alone at variable rates do not provide sufficient information about the impact of interest rate changes; interest rates on outstanding amounts will reflect the impact of monetary policy measures on variable interest items in the balance sheet. Quarterly frequency, or a slower timetable, for interest rates on outstanding business would delay information on this channel of monetary policy and aspect of financial stability.

In recognition of the novelty and difficulty of this area of statistics, the MFI interest rate Regulation provides for a transitional period (calendar year 2003) in which interest rates on outstanding business may be reported quarterly and the deadline for reporting data is extended. Publication of the new data began in December 2003.

The procedure for formulating statistical requirements and preparing Regulation ECB/2001/18

The merits and costs procedure was followed in developing MFI interest rate statistics. Chapter 43 explains the procedure in some detail. This chapter describes the application of the procedure in this particular case.

The key steps were an initial statement of user requirements for interest rate statistics, based on the assumption that, once implemented, the reporting scheme would have to remain stable for at least five years in the absence of compelling reasons to change it; informal consultations with selected reporting agents to examine the feasibility of meeting the initial statement of requirements; an assessment of the costs of the new statistics by NCBs; and a review of the initial statement of requirements in the light of this further information. Drafting the Regulation, which consists of a short main text with annexes providing details of the reporting scheme, proceeded in parallel with the later steps, with close involvement of the WGMBS, the STC and other interested ESCB committees (notably the MPC, Banking Supervision Committee (BSC) and Legal Committee (LEGCO)).

The first step in December 1999 involved the identification of user requirements. The principal users are the economics, research and banking supervision departments in the ECB and the NCBs, the European Commission, the IMF and the OECD. Users noted three main applications for MFI interest rate statistics:

- to analyse the ways monetary policy is transmitted through the euro area economy;
- to analyse monetary developments in the euro area. Ideally, prices (interest rates) and quantities (the monetary aggregates and credit) should be analysed together;
- to monitor structural developments in the banking and financial system and to analyse financial stability issues.

Based on the user requirements, a tentative reporting scheme for MFI interest rate statistics was developed during the course of 2000. During February and March 2001, statisticians carried out a comprehensive fact-finding exercise on MFI interest rate statistics with MFIs to see how the needs might be met. In the light of the fact-finding exercise, the reporting framework for MFI interest rate statistics was modified so as to simplify the definition of the type of rate that should be collected and the definition of new business, and to reduce the number of instrument breakdowns. In summer 2001 the Statistics Committee provisionally agreed on the reporting requirements, the method of selecting the reporting agents, and the minimum national sample size.

A cost assessment exercise then considered the costs of providing interest rate statistics on outstanding amounts and new business with alternative frequency and timeliness requirements. The costs of providing breakdowns by sector, instrument category, and maturity/period of notice/initial fixation period were estimated in the broad sense without going into detail of the costs and merits of each individual indicator. Finally, the sampling procedure was assessed in terms of the costs of including selected small institutions in the reporting population. Other elements of the harmonised method for MFI interest rate statistics could not be defined as separate options. In particular, common definitions and classifications are unavoidable. The main conclusion was that MFI interest rate statistics, despite amendments and simplifications, would be very expensive for both reporting agents and NCBs.

In the light of this conclusion, and with knowledge of the relative costs of various options, ECB users reviewed their requests (July 2001) on the basis of so-called matching tables. They confirmed the need for monthly reporting, at the (already reduced) level of detail, to a timetable consistent with the monthly schedule for the production of MFI balance sheet statistics and monetary aggregates. These conclusions were then referred to the MPC and BSC,[65] which broadly supported them, although some members questioned the need for monthly (as opposed to quarterly) reporting of

[65] The Market Operations Committee (MOC) and the Payment and Settlement Systems Committee (PSSC) were also kept informed.

interest rates on outstanding amounts. This issue was eventually resolved in favour of monthly reporting after a transitional period. The 45 indicators (about half as many as had been initially requested), although no doubt including some items that were of marginal importance in some Member States, were considered to be the minimum necessary to reflect developments properly in the whole euro area with its different banking systems. Some questions also arose at a late stage concerning the sampling procedure and the need for information on business which, though covered by the reporting scheme, might be of minor importance to a reporting institution. The Regulation was eventually adopted by the Governing Council in December 2001. Although interest rate data are fundamentally different from balance sheet statistics, the preparation of Regulation ECB/2001/18 proceeded in step with a revised MFI balance sheet Regulation (ECB/2001/13 – see Chapters 32 and 33), because the interest rates relate to balance sheet categories, including some for which monthly reporting was to be a new requirement in the revised balance sheet Regulation, and because it seemed best to present all new reporting requirements concerning MFIs together.

Annex

Instrument categories for interest rates on outstanding amounts

	Sector	Type of instrument	Original maturity	Outstanding amount indicator number	Reporting obligation
Deposits in EUR	To households (*)	With agreed maturity	Up to 2 years	1	AAR
			Over 2 years	2	AAR
	To non-financial corporations	With agreed maturity	Up to 2 years	3	AAR
			Over 2 years	4	AAR
	Repos			5	AAR
Loans in EUR	To households (*)	For house purchases	Up to 1 year	6	AAR
			Over 1 and up to 5 years	7	AAR
			Over 5 years	8	AAR
		Consumer credit and other loans	Up to 1 year	9	AAR
			Over 1 and up to 5 years	10	AAR
			Over 5 years	11	AAR
	To non-financial corporations		Up to 1 year	12	AAR
			Over 1 and up to 5 years	13	AAR
			Over 5 years	14	AAR

(*) Including non-profit institutions serving households.

For the following instrument categories, the concept of new business is extended to the whole stock, i.e. to outstanding amounts.

	Sector	Type of instrument	Original maturity	New business indicator number	Reporting obligation
Deposits in EUR	To households (*)	Overnight		1	AAR
		Redeemable at notice (**)	Up to 3 months notice	5	AAR
			Over 3 months notice	6	AAR
	To non-financial corporations	Overnight		7	AAR
Loans in EUR	To households (*)	Bank overdraft		12	AAR, amount
	To non-financial corporations	Bank overdraft		23	AAR, amount

(*) Including non-profit institutions serving households.
(**) For this instrument category, households and non-financial corporations shall be merged and allocated to the household sector, since it owns about 98 % of the outstanding amount of deposits redeemable at notice in all participating Member States combined.

Source: Regulation ECB/2001/18, Annex II

Instrument categories for interest rates on new business

	Sector	Type of instrument	Original maturity, period of notice initial rate fixation	New business indicator number	Reporting obligation
Deposits in EUR	To households (*)	Overnight (***)		1	AAR
		With agreed maturity	Up to 1 year maturity	2	AAR, amount
			Over 1 and up to 2 years maturity	3	AAR, amount
			Over 2 years maturity	4	AAR, amount
		Redeemable at notice (**) (***)	Up to 3 months notice	5	AAR
			Over 3 months maturity	6	AAR
	To non-financial corporations	Overnight (***)		7	AAR
		With agreed maturity	Up to 1 year maturity	8	AAR, amount
			Over 1 and up to 2 years maturity	9	AAR, amount
			Over 2 years maturity	10	AAR, amount
	Repos	11	AAR, amount		
Loans in EUR	To households (*)	Bank overdraft (***)		12	AAR, amount
		For consumption	Floating rate and up to 1 year initial rate fixation	13	AAR, amount
			Over 1 and up to 5 years initial rate fixation	14	AAR, amount
			Over 5 years initial rate fixation	15	AAR, amount
		For house purchases	Floating rate and up to 1 year initial rate fixation	16	AAR, amount
			Over 1 and up to 5 years initial rate fixation	17	AAR, amount

	Sector	Type of instrument	Original maturity, period of notice initial rate fixation	New business indicator number	Reporting obligation
			Over 5 and up to 10 years initial rate fixation	18	AAR, amount
			Over 10 years initial rate fixation	19	AAR, amount
		For other purposes	Floating rate and up to 1 year initial rate fixation	20	AAR, amount
			Over 1 and up to 5 years initial rate fixation	21	AAR, amount
			Over 5 years initial rate fixation	22	AAR, amount
	To non-financial corporations	Bank overdraft (***)		23	AAR, amount
			Floating rate and up to 1 year initial rate fixation	24	AAR, amount
			Over 1 and up to 5 years initial rate fixation	25	AAR, amount
			Over 5 years initial rate fixation	26	AAR, amount
	Other loans over an amount of EUR 1 million			12	AAR, amount
			Floating rate and up to 1 year initial rate fixation	27	AAR, amount
			Over 1 and up to 5 years initial rate fixation	28	AAR, amount
			Over 5 years initial rate fixation	29	AAR, amount

(*) Including non-profit institutions serving households.
(**) For this instrument category, households and non-financial corporation shall be merged and allocated to the household sector, since it owns about 98% of the outstanding amount of deposits redeemable at notice in all participating Member States combined.
(***)For this instrument category, the concept of new business shall be extended to thewhole stock, i.e. to outstanding amounts.

The annual percentage rate of charge (APRC) shall be compiled for the following instrument categories. For each indicator reporting agents shall provide a weighted average interest rate applying the definitions and rules as laid down in this Regulation.

	Sector	Type of instrument	New business indicator number	Reporting obligation
Loans in EUR	To households (*)	For consumption	30	APRC
		For house purchase	31	APRC

(*) In general including non-profit institutions serving households, but NCBs may grant derogations in this respect.

Chapter 25

Securities issues

Purpose and nature of the initial provision. Distinguishing between "transactions" and valuation effects on the outstanding stock. The treatment of quoted shares. Proposals concerning short-term euro commercial paper.

Information about securities issues, redemptions and amounts outstanding is an important element in monetary and financial analysis. As the Box in the November 1999 Monthly Bulletin noted on the occasion of the introduction of securities issues statistics for the euro area: *"For borrowers, securities issues are an alternative to bank finance. Holders of financial assets may view bank deposits, negotiable instruments issued by banks (included in M3 if issued for two years or less) and other securities as partial substitutes. Securities issues statistics therefore complement monetary statistics. Over time, any shifts between direct finance (through securities markets) and indirect finance (through the banking system) may affect the transmission mechanism of monetary policy, as these shifts will change the euro area financial structure. Data on the outstanding amount of securities indicate the depth of capital markets. Furthermore, information on securities issues in euro may be used to assess the role of the euro in international financial markets."*

The July 1996 implementation package noted that the purpose of securities issues statistics would be *"to monitor direct borrowing and lending (as opposed to the use of financial intermediaries), and the development of financial wealth held in the form of capital market instruments"*. The point about financial wealth is a reminder of the place of securities issues in financial accounts. The implementation package noted that existing data sources were likely to be adequate to start with in many Member States.

The initial coverage of securities issues statistics, and early improvements (sectoral breakdowns, monthly coverage of issues, redemptions and outstanding amounts of borrowings in euro by non-residents of the euro area) were described in Chapter 9 in Part A. Two serious shortcomings remained in the statistics. The first was a problem found in other areas of statistics, namely that growth rates calculated from levels outstanding included reclassification and revaluation effects and did not isolate the growth in outstandings arising from "transactions" (the flow of new issues and redemptions). In securities issues statistics, where outstanding debt securities are valued at nominal or face value, the main valuation effect arose from changes in the euro value of paper denominated in foreign currency. In January 2003 the ECB introduced the calculation of growth rates based on an index of notional stocks, as used for the calculation of monetary growth rates. A more substantial improvement introduced at the same time was coverage of amounts outstanding of quoted shares issued by euro area residents, broken down by sector of issuer (non-financial corporations, MFIs and non-monetary financial corporations). The quoted share data are valued at market prices. Valuation problems were indeed the main reason delaying the inclusion of statistics for quoted shares. Transactions data for quoted shares were introduced at the end of 2003.[66]

Council Regulation (EC) No 2533/98 does permit the ECB to address reporting requirements directly to issuers of securities (i.e. the reference reporting population in Article 2 includes *"legal and natural persons … to the extent that information relating to securities … issued by them is necessary to fulfil the ECB's reporting requirements"*). Instead, however, the ECB sets out its requirements in the Guideline on money and banking statistics (Annex XIX in version ECB/2003/2), which states that securities issues statistics are based so far as possible on existing data at national and international level. Where available data are not fully consistent with the specified definitions and breakdowns, NCBs should explain how they deviate from them, but are not compelled to obtain fully compliant data. So far as possible securities other than shares should cover certificates of deposit, commercial paper and euro commercial paper, Treasury bills, bonds, medium-term notes, and "other" short-term paper. Quoted shares should include private placements. Shares are reported at market value, securities other than shares at nominal (face) value – a departure from the ESA 95 which requires market value. In principle the series start in January 1990 (outstandings at end-December 1989).

Securities issues statistics is clearly an area which should benefit from the availability of the Centralised Securities Database described in Chapter 40. It should in time be possible to compile the statistics of issues, redemptions and outstanding amounts, with the required sectoral, maturity and instrument detail and with proper allowance for valuation effects, from the CSDB.

As noted above, short-term euro commercial paper issues, redemptions and outstanding amounts are already covered in the ECB's securities issues statistics. Amounts are shown indistinguishably in the ECB's securities issues statistics. The ECB publishes no statistics on the price of such paper, nor any other information about it.

The market in short-term commercial paper issued by enterprises other than MFIs is fragmented, no doubt raising the cost of borrowing in this form while reducing the attractiveness of the paper to holders. In 2002, a market initiative was taken to foster development of an integrated market in commercial paper in Europe. The report[67] of a study group of market practitioners recommended that the ECB should collect and provide various statistics on the market, beyond what is recorded in the securities issues statistics.

The report makes various proposals concerning an integrated market. It proposes that *"the ECB design, collect, process and publish statistics on volumes of activity in the [short-term European paper]"*. Data would cover type of issuer, maturity, rating and currency. The report also recommends that the ECB should compile a primary yield index.

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[66] Financial accounts had already for some time included quarterly data, on a transactions basis, on quoted shares – the acquisition of quoted shares by non-financial sectors in the euro area, and (on the liabilities side) issues of quoted shares by non-financial corporations in the euro area. Work was undertaken to reconcile these data from national financial accounts sources with the securities issues source.

[67] "The short-term paper market in Europe – proposals and recommendations for the development of a pan-European market" (EURIBOR-ACI Short-term European Paper Task Force, December 2003).

Annex

Available statistics on securities issues, 2003

Debt securities

Issues
- gross issues
- redemptions
- net issues
- outstanding amounts

Issuers
- euro area residents, in euro[68] and in other currencies separately
  - Eurosystem
  - MFIs other than central banks
  - other (non-monetary) financial intermediaries (OFIs), except insurance corporations and pension funds
  - insurance corporations and pension funds
  - non-financial corporations
  - central government
  - state and local government
  - social security funds
- non-residents of the euro area, in euro only
  - central banks
  - MFIs other than central banks
  - OFIs, except insurance corporations and pension funds
  - insurance corporations and pension funds
  - non-financial corporations
  - central government
  - state and local government
  - social security funds
  - international organisations

Initial maturity of the securities
  short-term (one year or less, exceptionally two years or less)
  long-term (all other debt securities, including securities with optional maturity dates, the latest of which is more than one year away, or with indefinite maturity dates)
  fixed-rate issues
  floating rate issues
  zero coupon bonds

Source: Guideline ECB/2003/2, Annex XIX, Appendix 2

[68] Including the former national currencies of the Member States in the euro area.

Quoted shares

Issues
- gross issues
- redemptions
- net issues
- outstanding amounts

Issuers
- euro area residents
  - MFIs other than central banks
  - OFIs, except insurance corporations and pension funds
  - insurance corporations and pension funds
  - non-financial corporations

NCBs provide as a memorandum item the same information for **unquoted shares** and for **other equity** issued by euro area residents as for quoted shares.

All the information is provided monthly.

The data on issues by non-residents of the euro area are provided by the BIS.

Chapter 26

Non-monetary financial intermediaries

Reasons for interest in "other" (non-monetary) financial intermediaries (OFIs). Priority given to quarterly data on investment funds, with plans to extend statistical coverage to other groups. Steps towards a formal approach supported by legislation.

The definition of a monetary financial institution, the preparation of an EU-wide list of MFIs, and the nature of their reporting, were described in Chapters 5-7 in Part A. In Stage Three, these institutions were directly addressed initially through Regulation ECB/1998/16 (as amended), and are currently addressed through Regulations ECB/2001/13 (as amended) and ECB/2001/18.

Many financial institutions lie outside the MFI sector. Their business varies. Some may come close to satisfying the MFI definition, sharing some of the functional features of MFIs – perhaps extending credit on their own account, but financing their activity by taking funds from MFIs or issuing medium-term bonds which cannot be regarded as close substitutes for money.

These institutions (excluding insurance corporations and pension funds) form the sub-sector "other financial intermediaries" (S 123) in the ESA 95, which defines them as *"financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical reserves"*, or, in plainer words, financial intermediaries that are not MFIs or insurance corporations. The ESA 95 lists types of institution that are to be classified in S 123. They include mortgage grantors and mutual funds, leasing, factoring and hire purchase companies, securities and derivatives dealers, venture capital companies, companies extending consumer or business credit or financing foreign trade, finance vehicles set up to hold securitised loans, and financial holding companies – in each case, to the extent that they do not meet the MFI definition. For mutual funds, that means to the extent that they do not meet the criteria for selecting money market funds. The aim (in the words of the implementation package) is *"to monitor the business of institutions similar to MFIs; to monitor important areas of (non-banking) financial activity"*. Collecting information on financial intermediaries that are similar to MFIs helps to maintain the integrity of the MFI sector. OFIs (other than insurance corporations and pension funds) thus form part of the reference reporting population for purposes of ECB statistics in Council Regulation (EC) No 2533/98. The ECB could therefore oblige OFIs to meet its reporting requirements by Regulation, but so far has met its needs from existing available data.[69] As in some other areas, the ECB

[69] Regulation ECB/2002/8 does however require custodians and institutions running securities settlement systems to assist in recording holdings outside the euro area of shares/units issued by euro area MMFs, if requested to do so by NCBs.

instead sets out its requirements in a Guideline (ECB/2003/2 was the version in force at the end of 2003, of which Recital 5 and Annex XVIII are the most relevant parts), and leaves the NCBs some discretion in meeting them from available data sources.

In practice, compiling regular quarterly information on OFIs was delayed in the early part of Stage Three because of higher priorities. Periodic exercises showed that the importance of such institutions varied among Member States. In some, nearly all financial intermediation was conducted by MFIs; in others important parts of financial business were performed by OFIs. Overall, OFIs' balance sheets were some 20% as large as MFI balance sheets. The collective investment institutions not classed as MMFs constituted by far the most important group, in terms of balance sheet size. These comprised specialist bond, equity and real estate funds, and funds holding a mixed portfolio. Some held assets predominantly outside Europe. Such funds may be open to the general public or restricted to certain types of investor. Altogether these funds accounted for about 80% of the total OFI balance sheet. In mid-2003 their total balance sheets were the equivalent of about 15% of the aggregated balance sheets of MFIs. (Their balance sheet size varies with stock market conditions.)

The ECB thus gave priority to collecting quarterly data on euro area investment funds, and, following much preparatory work in an ad hoc task force on OFI statistics, first published data on them at the beginning of 2003. The Box *"New ECB statistics on euro area investment funds"* (January 2003 Monthly Bulletin) explained their significance: *"First, changes in investment funds' asset value are transmitted, through the valuation of their shares, to households and firms, indirectly generating wealth effects. Second, since investment funds are large professional investors, their portfolio choices may be indicative of more general trends in portfolio diversification, which is useful for explaining developments in M3, for example. Third, investment fund data provide insight into the euro area financial structure, in particular vis-à-vis the MFI sector."*

The investment fund data are broken down by the main types of fund (equity funds, bond funds, etc.). Although the ECB thus far publishes only data relating to investment funds, the Guideline (ECB/2003/2) requests NCBs to submit separate data on securities and derivatives dealers, financial corporations engaged in lending, and a residual category of "other" OFIs. The Guideline explains, however, that data on investment funds are the priority: *"no specific additional efforts are required for the provision of data in respect of [the other three categories] in the case that actual data are not collected at the national level."* Subject to that, the requirement is balance sheet data with information on the residence of counterparties (domestic, elsewhere in the euro area, resident outside the euro area). Where NCBs transmit data on financial corporations engaged in lending, they should include a breakdown by purpose of loans to households (consumer credit, loans for house purchase, and "other" – as in the MFI statistics). Ideally the balance sheet positions should be accompanied by transactions data, but the Guideline recognises that such data may not be readily available, and indeed the published investment fund data include no transactions data. Some of the information is "key", to be transmitted for the compilation of euro area aggregates, though these are not yet published except for investment funds; and some is "supplementary", where there is user interest but compilation of a euro area aggregate is not at present feasible.

In December 2003, the STC agreed to formalise collection of statistics on investment funds, financial vehicles set up to securitise assets (see also the annex to Chapter 32), and, after further work, securities and derivatives dealers. The formal or steady-state approach will mean harmonised statistics collected under an ECB Regulation. For other OFI statistics, the STC agreed to continue with the present informal approach for the time being.

Annex

Summary of data on investment funds available under the short-term approach

Guideline ECB/2003/2 requires NCBs to report to the ECB data on other (non-monetary) financial intermediaries, except insurance corporations and pension funds, “to the extent that [data are] available”. Annex XVIII to the Guideline explains that NCBs should focus their efforts on investment funds. The data requested on investment funds are summarised below. They are to be provided for equity, bond, mixed, real estate and “other” funds separately. NCBs should also provide as a memorandum item, for investment funds in total and for a few main balance sheet aggregates only, a breakdown between funds open to the public and funds reserved for certain types of investor. Maturity is original (initial) maturity.

Assets

- deposits
- securities other than shares
    - up to one year
        - claims on domestic residents
            - MFIs*
            - non-MFIs*
        - claims on residents of other participating Member States
            - MFIs*
            - non-MFIs*
        - claims on the rest of the world
    - over one year
        - claims on domestic residents
            - MFIs*
            - non-MFIs*
        - claims on residents of other participating Member States
            - MFIs*
            - non-MFIs*
        - claims on the rest of the world
- shares and other equity
    - claims on domestic residents
        - MFIs*
        - non-MFIs*
    - claims on residents of other participating Member States
        - MFIs*
        - non-MFIs*
    - claims on the rest of the world

- investment fund shares/units
  - claims on domestic residents
    - MFIs*
    - non-MFIs*
  - claims on residents of other participating Member States
    - MFIs*
    - non-MFIs*
  - claims on the rest of the world

- fixed assets
- financial derivatives
- other assets

Liabilities

- deposits and loans taken
- investment fund shares/units issued
  - liabilities to domestic residents*
    - MFIs*
    - non-MFIs*
  - liabilities to residents of other participating Member States*
    - MFIs*
    - non-MFIs*
  - liabilities to the rest of the world*

- financial derivatives
- other liabilities

*Indicates a memo item. Other items are “key” items.

Source: Guideline ECB/2003/2, Annex XVIII, Appendix 1

Chapter 27

International investment position

From a net to a gross approach (assets and liabilities separately). Valuation of direct investment. Measuring portfolio liabilities. Prospective use of a centralised securities database to improve recording of securities in the international investment position (and balance of payments). The IMF/BIS template on international reserves and foreign currency liquidity.

The international investment position is a statement, as at some date, of the value and composition of the stock of an economy's assets and liabilities vis-à-vis the rest of the world. The i.i.p., at least in principle, includes land, other property and immovable items which are located abroad and owned by residents of the economy concerned, or located in the economy but owned by non-residents. The i.i.p. also includes monetary gold and SDRs (neither of which are a liability of anyone) held by the monetary authorities. The July 1996 implementation package required *"an annual statement of the external assets and liabilities of the single currency area as a whole, for monetary policy and exchange market analysis, and to assist in the compilation of balance of payments flows"*. Although the required breakdown had not yet been decided, it would be based on IMF standard components for the i.i.p. as set out in the BPM5 and on the breakdown of the quarterly and annual euro area balance of payments, with consistent concepts and definitions. Given this consistency, the change in the net i.i.p. (change in assets minus liabilities) between two year-ends will equal the balance of payments on current and (new) capital account in the intervening year, after adjustment for all reclassification and revaluation effects that are not transactions recorded in the balance of payments but which still influence the i.i.p. Since, at least in principle, the balance of payments records transactions at prices and exchange rates at the time at which they were carried out, whereas (again in principle) in the i.i.p. assets and liabilities are valued at the prices and exchange rates ruling on the reporting date, this adjustment can be large.

The ECB published the first i.i.p. for the euro area in November 1999, with end-year data relating to 1998 and (with a reservation about their comparability) 1997. These data were on a net basis, and continued so until 2002 when separate assets and liabilities were published for end-years 1999-2001. Net assets or liabilities require no geographical breakdown in the national i.i.p. data from which the euro area aggregate is compiled: if cross-border assets and liabilities within the area may be assumed to cancel out, total assets minus liabilities represent the net external asset (or liability) position of the area as a whole. If moreover Member States may be assumed to allocate positions among categories in the i.i.p. in a consistent way, the net balance in each category will represent the net external asset or liability of the euro area in (for example) direct or portfolio investment. Neither of these assumptions is likely to have been valid, but lack of data at first prevented any other approach.

The i.i.p. was thus initially prepared and published in a rudimentary form. Partly because of the development of financial accounts, which include a full set of balance sheet information, the i.i.p. has grown in importance and has developed accordingly. (An associated initiative to increase the frequency of the i.i.p. to quarterly is discussed in Chapter 29.) The most obvious development in the i.i.p. since 1999 has been the move to a gross basis (separate assets and liabilities), which had to await national data with sufficient geographical information to enable cross-border positions within the euro area to be omitted and the aggregates to be compiled from positions vis-à-vis the rest of the world only.[70] In practice, the first "gross" results were not greatly different from the "net" results for the overlap end-years (1999 and 2000), suggesting that inconsistencies and asymmetries in the national data had not been too serious.

The gross data first published in December 2002 permit a breakdown of the change in outstanding stocks between two year-ends between the part accounted for by "transactions" – the flows recorded in the relevant category of the balance of payments financial account – and "other changes", comprising reclassifications and a variety of valuation changes, which are not recorded in the balance of payments. The correspondence between the categories in the balance of payments and in the i.i.p. facilitates this analysis. A feature is that each of the categories (where relevant) shows positions of euro area MFIs separately; to this extent, the monetary presentation of the balance of payments (see Chapter 35) also covers the i.i.p.

Other improvements in the i.i.p. data have been made since 1999; further measures are in train; yet others (particularly in the portfolio investment area) have still to begin. Often there are corresponding improvements in the financial account of the balance of payments and sometimes also in the current account (especially in investment income). The main points concern the valuation of direct investment stocks; the identification of reinvested profits and their inclusion in direct investment; the allocation of certain items reflecting positions between affiliated companies within direct investment assets and liabilities, affecting the composition but not the totals; the distinction between direct, portfolio and "other" investment; and, within portfolio investment, the familiar problem of identifying holders of marketable securities, which necessitates a roundabout method of compiling the stock of externally held portfolio liabilities as the difference between two large magnitudes. It should be recalled that some Member States were still at the start of Stage Three compiling the i.i.p. by cumulating flows reported under bank settlements-based reporting systems.

The valuation principle in the i.i.p. recommended by the BPM5 is market value on the reporting date. Market valuation of direct investment stocks has proven difficult for some Member States. For direct investment, book value is an acceptable departure, provided the book value is itself based on a market valuation of the relevant balance sheet items, and not on (for example) historic cost. The compromise agreed by the STC, and currently in the process of implementation, is provision of data at both market value and book value for listed companies, and at book value alone for unlisted companies (where "book value" means the value of the appropriate share in the direct investment enterprise's own funds at book value). The STC supports the compilation of direct investment stock data from surveys, rather than from the cumulation of payment flows, which will be considered unacceptable from 2005.

[70] Balance of payments data had been calculated this way since 1999, but national compilers' ability to make the necessary distinction for transactions did not mean that they could do the same for outstanding positions, since the two sets of data are often compiled from different sources. As in the balance of payments in the case of flows, portfolio investment stocks remain a partial exception – see below.

Identifying reinvested earnings and including their cumulative amount in direct investment is another difficulty for i.i.p. compilers where the i.i.p. is based on cumulative payments flows rather than an i.i.p. survey. (Unlike the valuation question, this matter also affects the balance of payments on both the current and financial account, and to that extent is an even more serious issue.) It should be noted that assessing reinvested profits is not an exact science; since total profits may not be computed until well after the reporting deadline, reinvested profits are commonly calculated by projecting profits from the previous year or period and deducting distributed dividends from them.

The composition of direct investment stocks in the i.i.p. is of less concern than the total, though it may be a source of difficulty. Where a direct investment relationship between enterprises exists, loans, trade credits, financial leasing – in fact practically any sort of inter-company account – should be treated as direct investment, following the directional principle under which (for example) a loan or trade credit from a subsidiary to its parent abroad is recorded as a disinvestment by the parent in the subsidiary. This treatment is difficult to achieve in a bank payments-based collection system. Coverage of such positions may in any case be incomplete in some Member States.

A related issue which does affect direct investment totals even on a net assets/liabilities basis is the special treatment of positions involving affiliated financial intermediaries, including MFIs. In this case only positions involving some kind of equity or permanent debt should be recorded in direct investment in the i.i.p.; deposits, loans, and most types of debt security should be recorded in "other investment", as if they represented claims on or liabilities to an unrelated institution. There is no reason to think that this provision in the BPM5 causes particular difficulties for the euro area i.i.p. The other important provision determining the borderline between direct and other forms of investment, the 10% ownership criterion,[71] undoubtedly causes difficulties for the euro area i.i.p. in practice (and is a source of inconsistency in the treatment of cross-border positions within the euro area, with a knock-on effect on the euro area i.i.p.),[72] but all Member States apply it as best they can.

As with the balance of payments, the portfolio investment account is the most difficult part of the i.i.p. Positions are in principle valued at market prices – itself often a source of difficulty, and a formidable challenge to bank payments-based systems. Meanwhile surveys, well-suited to recording portfolio holdings of MFIs, securities dealers, pension funds and other large corporate or mutual investors, are likely to miss household and other small direct holdings abroad. Many portfolio liabilities cannot in any case be directly measured because the residency of the holder cannot be identified by the issuer of the paper. For portfolio liabilities, therefore, an indirect route is followed, similar to the approach used in the balance of payments, by deducting recorded domestic holdings and recorded holdings by other euro area residents from total amounts in issue. Evidently the calculation is vulnerable to mistakes in valuation and coverage. The

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[71] *"A direct investment enterprise is … [one] in which a direct investor, who is resident in another economy, owns 10% or more of the ordinary shares or voting power … or the equivalent (for an unincorporated enterprise)"*. (BPM5, paragraph 362).

[72] This is because the euro area aggregate for portfolio investment liabilities (holdings abroad of portfolio investments in the euro area) is calculated as a residual, by deducting from portfolio liabilities outstanding the amounts recorded as held by residents of the euro area. A misclassification of some of these affects the residual.

portfolio investment liabilities recorded in the i.i.p. at present must be viewed with this qualification in mind.

Improving the portfolio liabilities account in the i.i.p. is a priority for the ECB, as are related improvements in the balance of payments financial and investment income accounts. One approach would extend the work to identify non-resident holders of marketable monetary instruments issued by MFIs described in Chapter 34, using the CSDB (see Chapter 40) to record information on holders obtained from a variety of available sources including custodians and security settlement systems.[73] Though difficult, because of the need to avoid double-counting and omissions, the approach is apparently feasible with a large, highly automated database. A second, complementary, approach would be to use mirror data on portfolio assets (claims on the euro area) held by countries outside the euro area. IMF portfolio benchmark surveys, the frequency of which has increased to annual, meet this need, with the drawback of limited coverage of countries participating.

Some of the same problems concerning valuation of positions and identification of counterparts arise with financial derivatives, which are – at least in principle – entered in the i.i.p. as separate categories of assets and liabilities and valued at market prices. (In the euro area balance of payments, financial derivatives are recorded on a net basis.)

IMF/BIS reserves template

As described in Chapter 11 of Part A, in preparing for Stage Three the EMI developed a measure of reserve assets for purposes of the euro area b.o.p. and i.i.p. statistics. These data form part of the i.i.p. discussed in the paragraphs above. Following the BPM5, reserve assets comprise highly liquid, marketable and creditworthy foreign currency (non-euro) claims of the Eurosystem on non-residents of the euro area, plus gold, SDRs and reserve positions in the IMF. Reserve assets are gross; no Eurosystem liabilities are deducted from them (though these will of course be recorded elsewhere in the balance of payments and international investment position if they represent transactions or positions vis-à-vis non-residents of the euro area). As a memorandum item – because they do not represent Eurosystem transactions or positions with non-residents of the euro area, and so are not included in the balance of payments or international investment position and are not reserve assets – the ECB also publishes monthly data on the Eurosystem's foreign currency claims on residents of the euro area, mainly dollar deposits with banks located in the euro area, because these claims contribute to the Eurosystem's foreign currency liquidity.

In the light of experience in the 1990s, the IMF in cooperation with the BIS developed an international reserves template that went well beyond the BPM5 definition of reserve assets. Euro area Member States complete the template under the IMF's Special Data Dissemination Standard (SDDS), and the ECB, using data provided by the NCBs, compiles an international reserves template for the euro area. Essentially the template consists of an extended presentation of reserve assets, with information on reserve-related liabilities. The presentation allows net reserve assets to be derived. Starting with reserve assets (balance of payments/international investment position definition), it adds foreign currency claims on residents of the euro area, and any other foreign currency

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[73] The CSDB is expected to solve, or alleviate, two other serious practical problems for portfolio investment in the i.i.p., namely valuation of positions, and correct classification of securities.

claims not included in official reserve assets because they do not meet the “highly liquid, marketable and creditworthy” criterion. The template then lists what are called “predetermined short-term net drains on foreign currency assets”, which are commitments to pay out foreign currency under loan agreements, forward and futures contracts, commercial credits, etc., net of any similar claims to receive foreign currency. The template then lists “contingent short-term net drains on foreign currency assets” (guarantees, credit lines, options contracts, etc.). Finally the template requests some information pro memoria, including the currency composition of the reserves. The full requirements are set out in Annex II, Table 3 of Guideline ECB/2003/7, which forms the second annex to this chapter. The SDDS requires monthly data within a month of the reference date; weekly frequency and timeliness have been considered but not so far adopted.

Annex 1

International investment position and reserve assets outstanding

1. Summary international investment position

Total		Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	as % of GDP					
1	2	3	4	5	6	7
Net international investment position						
Outstanding assets						
Outstanding liabilities						

2. Direct investment

By resident units abroad						By non-resident units in the euro area					
Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
Total	MFIs *	Non-MFIs	Total	MFIs *	Non-MFIs	Total	MFIs *	Non-MFIs	Total	MFIs *	Non-MFIs
1	2	3	4	5	6	7	8	9	10	11	12

3.1. Portfolio investment by instrument

Equity		Debt instruments					
		Assets			Liabilities		
Assets	Liabilities	Total	Bonds and notes	Money market instruments	Total	Bonds and notes	Money market instruments
1	2	3	4	5	6	7	8

3.2. Portfolio investment: assets by instrument and sector of holder

Equity					Debt instruments									
					Bonds and notes					Money market instruments				
Euro-system	MFIs *	Non-MFIs			Euro-system	MFIs *	Non-MFIs			Euro-system	MFIs *	Non-MFIs		
		Total	General govern-ment	Other sectors			Total	General govern-ment	Other sectors			Total	General govern-ment	Other sectors
9	10	11	12	13	14	15	16	17	18	19	20	21	22	23

* Excluding the Eurosystem.

Source: ECB Monthly Bulletin, December 2002, Table 8.7

4. Other investment by sector and instrument

Eurosystem						General government							
Total		Loans/currency and deposits		Other assets/ liabilities		Total		Trade credits		Loans/currency and deposits		Other assets/ liabilities	
Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities
1	2	3	4	5	6	7	8	9	10	11	12	13	14

MFIs (excluding the Eurosystem)						Other sectors							
Total		Loans/currency and deposits		Other assets/ liabilities		Total		Trade credits		Loans/currency and deposits		Other assets/ liabilities	
Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities	Assets	Liabil-ities
1	2	3	4	5	6	7	8	9	10	11	12	13	14

5. Reserves and related assets of the Eurosystem and of the European Central Bank

Reserve assets														Memo: related assets
Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Foreign exchange								Other claims	Claims on euro area residents denomin-ated in foreign cur-rency
		In fine troy ounces (millions)			Total	Currency and deposits		Securities				Financial deriva-tives		
						With mone-tary author-ities and the BIS	With banks	Total	Equities	Bonds and notes	Money market instru-ments			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Eurosystem														
European Central Bank														

Annex 2

Monthly international reserves of the Eurosystem; reserve-related liabilities of the euro area

I. **Official reserve assets and other foreign currency assets (approximate market value)**

A. *Official reserve assets*

1. Foreign currency reserves (in convertible foreign currencies)
   (a) Securities, of which:
   — issuer headquartered in the euro area
   (b) total currency and deposits with
   (i) other national central banks, Bank of International Settlements (BIS) and IMF
   (ii) banks headquartered in the euro area and located abroad
   (iii) banks headquartered and located outside the euro area
2. IMF reserve position
3. SDRs
4. gold (including gold deposits and gold swaps)
5. other reserve assets
   (a) financial derivatives
   (b) loans to non-bank non-residents
   (c) other

B. *Other foreign currency assets*

(a) securities not included in official reserve assets
(b) deposits not included in official reserve assets
(c) loans not included in official reserve assets
(d) financial derivatives not included in official reserve assets
(e) gold not included in official reserve assets
(f) other

II. **Predetermined short-term net drains on foreign currency assets (nominal value)**

		Total	Maturity breakdown (residual maturity, where applicable)		
			Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 1 year
1. **Foreign currency loans, securities and deposits**					
— outflows (–)	principal				
	interest				
— inflows (+)	principal				
	interest				
2. **Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)**					
(a) Short positions (–)					
(b) Long positions (+)					
3. **Other (specify)**					
— outflows related to repos (–)					
— inflows related to reverse repos (+)					
— trade credits (–)					
— trade credits (+)					
— other accounts payable (–)					
— other accounts receivable (+)					

Source: Guideline ECB/2003/7, Annex II

III. **Contingent short-term net drains on foreign currency assets (nominal value)**

	Total	Maturity breakdown (residual maturity, where applicable)		
		Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3.1. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF and other international organisations				
— other national monetary authorities (+)				
— BIS (+)				
— IMF (+)				
(b) banks and other financial institutions headquartered in the reporting country (+)				
(c) banks and other financial institutions headquartered outside the reporting country (+)				
3.2. Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF and other international organisations				
— other national monetary authorities (–)				
— BIS (–)				
— IMF (–)				
(b) banks and other financial institutions headquartered in the reporting country (–)				
(c) banks and other financial institutions headquartered outside the reporting country (–)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
b) Long positions				
(i) Bought calls				
(ii) Written puts				
Pro memoria: In-the-money options				
(1) At current exchange rates				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5 %)				
(a) Short position				
(b) Long position				
(3) – 5 % (appreciation of 5 %)				
(a) Short position				
(b) Long position				

	Total	Maturity breakdown (residual maturity, where applicable)		
		Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 1 year
(4) + 10 % (depreciation of 10 %)				
(a) Short position				
(b) Long position				
(5) – 10 % (appreciation of 10 %)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
b) Long position				

IV. **Memo items**

1. To be reported with standard periodicity and timeliness:

(a) short-term domestic currency debt indexed to foreign exchange rates

(b) financial instruments denominated in foreign currency and settled by other means (e.g. in domestic currency)
— non-deliverable forwards
(i) short positions
(ii) long positions

— other instruments

(c) pledged assets
— included in reserve assets
— included in other foreign currency assets

(d) securities lent and on repo
— lent or repoed and included in Section I
— lent or repoed but not included in Section I
— borrowed or acquired and included in Section I
— borrowed or acquired but not included in Section I

(e) financial derivative assets (net, marked to market)
— forwards
— futures
— swaps
— options
— other

(f) derivatives (forward, futures or options contracts) that have a residual maturity greater than one year, which are subject to margin calls
— aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)
(i) short positions
(ii) long positions

— aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency
(i) short positions
— bought puts
— written calls
(ii) long positions
— bought calls
— written puts

2. To be disclosed less frequently (e.g. once a year):

(a) currency composition of reserves (by groups of currencies)
— currencies in SDR basket
— currencies not included in SDR basket

Towards a complete set of accounts

Chapter 28

Monetary Union Financial Accounts

Financial accounts first published in 2001 as a table of financing and financial investment of households, non-financial enterprises, and government (the "fairly full, though incomplete, account" mentioned in the implementation package). Guideline ECB/2002/7 formalises the provision of data to the ECB and encourages improvements.

Financial accounts provide a balance sheet and a record of financial transactions analysed by sector and financial instrument. For example, financial accounts show the financial assets held by the household sector broken down by type of asset (currency and deposits, securities other than shares, shares and other equity, etc.), and the liabilities of the household sector, also broken down by instrument (loans, with a further breakdown between consumer credit and borrowing for house purchase). The sectoral analysis is important because sectors may react differently to changes in their overall financial position, with different implications for economic developments and inflation. Financial accounts may be consolidated (meaning that borrowings and lendings within a sector are netted), or unconsolidated. They may also (in the terminology of the SNA 93) be "detailed", meaning presented in a three-dimensional matrix showing which sectors finance which other sectors through the use of which financial instrument. Thus in "detailed" accounts, household holdings of securities other than shares would be broken down by debtor sector (MFIs, other financial corporations, non-financial corporations, etc.). Detailed financial accounts record full "from whom to whom" information, but are evidently heavy in their demand for data. Financial accounts for the euro area are, at least for the present, largely two-dimensional, and unconsolidated.

The implementation package expressed the intention to develop financial transactions and balance sheets to complement monetary analysis and policy research. It would be *"a fairly full, though incomplete, account"* drawing on the euro area monetary, balance of payments and capital market statistics and on national financial accounts compiled for the most part quarterly (though the legal requirement for national financial accounts in the ESA 95 is for annual, not quarterly, frequency). Since the financial accounts would draw on these sources, they could not be ready for the start of Stage Three. Indeed the first data were not published until May 2001, though prototype tables were available for internal use earlier.

The financial accounts first published in 2001 covered the financing and financial investment of the non-financial sectors in the euro area, namely households, non-financial corporations, and general government. The accounts were also partial in the sense that, while borrowing transactions and outstanding debt could be allocated among the three non-financial sectors, it was possible to allocate only certain items on the assets side because of the familiar problem of identifying holders of marketable instruments. In the financial corporations sector, insurance corporations and pension funds have substantial business (with, in the euro area, balance sheets the equivalent of nearly 20% of aggregate MFI balance sheets). Work began in autumn 2000 to assemble from existing sources quarterly balance sheet and transactions data; in early 2003 it became possible to introduce tables showing the assets and liabilities of insurance companies and pension funds, and transactions in them. Meanwhile, in autumn 2002 the transmission by Member States of national financial accounts data was formalised by adoption of a Guideline (ECB/2002/7). Work continued on a European Parliament and Council Regulation concerning quarterly financial accounts of general government, another important ingredient in euro area financial accounts and a long-standing priority of the EFC as well as of the ECB. The ECB offered a favourable opinion on an advanced draft of such a Regulation in July 2003.[74]

Guideline ECB/2002/7 did not seek to add to the current request for data from Member States, but rather to put it on a firmer basis. This is particularly important where the government statistics office, not the NCB, is the source of the data. Indeed, Article 5 of the Guideline concerns such a case:

"Where the sources for some or all of the data and for the information described in Article 2 are competent national authorities other than the NCBs, the NCBs shall endeavour to establish with those authorities the appropriate modalities of cooperation to ensure a permanent structure of data transmission to fulfil the standards and requirements of the ECB, unless the same result is already achieved on the basis of national legislation.

When in the course of this cooperation an NCB is unable to comply with the requirements laid down in Articles 2 and 4 because the competent national authority did not provide the NCB with the necessary information, the ECB and the NCB shall discuss with that authority how the information can be made available."

The obligations arising from the Guideline lie on the NCB, not on the government statistics office. By imposing a formal obligation on the NCB, however, the Guideline may be expected to influence the government agency concerned, and if necessary provide it with a means to obtain resources for improving financial accounts.

Although the Guideline does not add to the current data request, by no means all the data requested are currently supplied. A feature of the Guideline (and in practice the most difficult issue in its preparation) is the list of derogations in Annex III. All euro area Member States except Spain have derogations for current data, in some cases covering numerous series; and Ireland and Austria have derogations concerning back series. The derogations expire at the end of 2005 even if there is little prospect that the relevant data will be available by then. The purpose is to prompt an early review of the situation and keep the issue alive.

The requirement under the Guideline is for quarterly data submitted within 130 calendar days. Data are required from the fourth quarter of 1997. NCBs must provide *"readily available information on single major events and on reasons for revisions"* where these have a significant impact on the data (in excess of 0.1% of a quarter's euro area GDP – to the order of EUR 1.8 billion). Perhaps most important is the provision in Article 2 that *"The data shall comply with the principles and definitions of the ESA 95, unless otherwise specified in Annex I.*" In fact, Annex I requires no alternative specification; the qualification protects against some possible future divergence between the ESA and the ECB's requirements. Another important provision in Article 7 obliges the Executive Board to report on the quality of euro area financial accounts at least

[74] The Regulation was finally adopted in March 2004 (No 501/2004).

annually, and on the magnitude of revisions. In this way (together with the necessary review of derogations) the Guideline maintains pressure for continuing improvement to financial accounts.

Quality of data was one reason for developing financial accounts in the first place. Assembling a matrix from different sources (euro area money and banking statistics, securities issues, balance of payments, and national financial accounts) will provide cross-checks and throw up any significant discrepancies. Preparing a matrix in both stock and flow terms provides another check on consistency, except of course to the extent that flows are calculated as the change in stocks, or stocks are compiled by accumulating flows.

A natural extension of financial accounts is full sectoral accounts. Chapter 31 describes the ECB's work to develop quarterly sectoral accounts, in collaboration with the Commission.

Annex

Summary of data requirements in Guideline ECB/2002/7

Financial assets

Creditor sectors
- non-financial sectors
  - non-financial corporations
  - general government
  - households, including non-profit institutions serving households
- insurance corporations and pension funds

Financial instruments held
- deposits
- short-term securities other than shares, except financial derivatives
- long-term securities other than shares, except financial derivatives
- short-term loans
- long-term loans
- quoted shares
- mutual fund shares
  - money market fund shares
- prepayments of insurance premiums and reserves for outstanding claims

Claims on residents[75] and claims on non-residents are to be reported separately. For deposits, claims on resident OFIs and financial auxiliaries, on resident insurance corporations and pension funds, and on resident general government, must be shown separately.

Financial assets are to be reported on an unconsolidated basis, as both transactions during the quarter and outstanding positions at end-quarter.

[75] "Resident" means resident in the Member State concerned throughout.

Liabilities

Debtor sectors – the same as creditor sectors

Form of the debt
- currency
- deposits
- short-term securities other than shares, except financial derivatives
- long-term securities other than shares, except financial derivatives
- short-term loans
- long-term loans
- quoted shares
- net equity of households in life insurance and in pension fund reserves
- prepayments of insurance premiums and reserves for outstanding claims

Liabilities to residents and liabilities to non-residents are to be reported separately, except for currency and quoted shares. For short-term loans and long-term loans, liabilities to resident OFIs and financial auxiliaries, and to resident insurance corporations and pension funds, must be shown separately.

Liabilities are to be reported on an unconsolidated basis, as both transactions during the quarter and outstanding positions at end-quarter.

Sectors and instruments are as defined in the ESA 95.

Source: Guideline ECB/2002/7, Annex I, Tables 1-4

Chapter 29

The balance of payments/international investment position and quarterly financial accounts

The euro area balance of payments and international investment position viewed as the account of the rest of the world sector in the financial accounts. Work needed to fit balance of payments and international investment position statistics into the financial accounts. Measuring liquid assets held outside the euro area by euro area residents.

While, as described in Chapter 35, the link between the balance of payments and monetary statistics had been developed by late 2002, much work still remained to be done to fit the quarterly balance of payments and the quarterly euro area financial accounts together. The position was similar for financial accounts balance sheets and the annual international investment position.

The financial accounts are a comprehensive statement of transactions (and positions) by financial instrument and sector. Many of these transactions and positions will be with non-residents of the euro area, who form a separate sector – the rest of the world sector – in the euro area financial accounts. Transactions with the rest of the world sector make up the euro balance of payments (and, when measured in balance sheet terms, as outstanding positions, the i.i.p.). Since the euro area b.o.p. and i.i.p. statistics conform very largely[76] to the BPM5, in turn consistent (very largely) with the SNA 93 and the ESA 95, to which the euro area financial accounts conform, the euro area b.o.p. and i.i.p. in principle match the rest of the world account in the euro area financial accounts. Thus the July 1996 implementation package envisaged that the ECB *"will be able to compile a fairly full, though incomplete, [set of financial accounts] with proper consolidation for the single currency area from the money and banking, balance of payments and capital market statistics mentioned earlier"*. Indeed it would be confusing to use any source other than the euro area b.o.p./i.i.p. to compile the rest of the world account in the financial accounts, since the inevitable differences between the two sources would be confusing to users who rightly attach importance to consistency across the economic and financial accounts.

Although the b.o.p./i.i.p. and the rest of the world accounts are conceptually the same, there are practical difficulties in fitting the b.o.p./i.i.p. data into the financial accounts because the instrument categories do not match and the b.o.p./i.i.p. statistics carry only limited information about counterpart sectors in the euro area. The focus of the balance of payments is functional categories (direct investment, portfolio investment, "other" investment, derivatives, reserve assets, each except derivatives containing instrument detail), with stress on the external nature of the transaction, not on the resident

[76] Slight reservations are necessary because full conformity is sometimes lacking for practical reasons, even in the quarterly balance of payments. In some cases, BPM5 recommendations have been made more precise in euro area applications, in the interests of comparability and ease of aggregation.

counterparty. There are also questions of frequency (the i.i.p. is at present annual, whereas the financial accounts require quarterly data on outstanding stocks) and timeliness (quarterly balance of payments data would have to speed up for use as input to quarterly financial accounts available after 90 days).

Given the essential compatibility between the b.o.p./i.i.p. statistics and euro area financial accounts (transactions and balance sheets), these difficulties are not fundamental. However, much work was necessary to make the two pairs of accounts compatible in practice.

The issues were analysed in detail in a paper to the STC prepared in March 2003 by the Balance of Payments and External Reserves (BP&ER) and MUFA Working Groups. The main long-term task is a breakdown of b.o.p./i.i.p. categories by sector of euro area counterparty. This is not an immediate need, because the euro area financial accounts are currently "two-dimensional", not "detailed" in the terminology of the SNA 93; but the intention is to make them so, and accordingly to extend the limited sectorisation of euro area counterparties in the b.o.p./i.i.p. accounts.[77] An extended sectorisation may be a feature of the forthcoming revision of the BPM5, and would be implemented accordingly, because consistency between b.o.p./i.i.p. statistics and the rest of the world sector in financial accounts is an issue for statistical compilers worldwide. The frequency of stock data (the annual i.i.p.) has already been mentioned; the euro area i.i.p. will become quarterly in 2004, though with some reliance on the cumulation of flows with an allowance for valuation changes. There is a particular one-off task, namely to attempt to construct asset and liability stocks separately for two end-years (1997 and 1998) where at present only net stocks are available (see Chapter 27). A number of smaller tasks involve refining breakdowns of transactions in the balance of payments or positions recorded in the i.i.p., for example by distinguishing better between loans and deposits.

This last development is the more important where the result affects the measurement of holdings by euro area residents of liquid instruments issued by non-residents, which may be useful supplementary information for monetary analysis. The STC undertook in mid-2001 an examination of the statistical issues involved in collecting data on such holdings. The BIS international banking statistics, at that time the only feasible source, had shortcomings for this purpose. Not all countries with international banking and financial markets contributed to the BIS data. The statistics were available only quarterly, and to a slow timetable. They were not adjusted for reclassifications nor, except for exchange rate adjustments, for valuation changes. They contained no maturity breakdown, so it was not possible to tell how far euro area residents' claims on banks abroad really were of a monetary type; there were also differences between the sort of institutions contributing to the BIS data, and whose liabilities would therefore be included in the figures, and the MFIs contributing to the euro area monetary statistics. Where mirror statistics could be compared from ECB sources, large discrepancies were revealed. Nevertheless, liquid assets held abroad by euro area residents, and changes in them, form part of the euro area financial accounts, and BIS international banking data have been used in the table of financing and investment since it was first published in the May 2001 Monthly Bulletin.

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[77] At present Eurosystem, other MFIs, general government, and "other" sectors. The "other" category would need to be split into four.

Further work presented to the STC in December 2002 proposed the euro area balance of payments data as the prime source for holdings of liquid assets abroad, using the BIS international banking statistics, refined in some respects, as a supplementary source. The relevant data comprise the “currency and deposits” category on the assets side of “other investment” transactions of non-MFIs (it is possible to split off “loans”, initially on an estimated basis). The use of euro area balance of payments data, cumulating flows between periodic recordings of stock data, would have the advantage of comprehensiveness and timeliness. It would also improve consistency between the quarterly financial accounts and the annual i.i.p., of which euro area residents’ holdings of liquid assets abroad also form part. The STC acknowledged that the BIS data would be improved by fuller information offered by the Bank of England, giving monthly data on short-term deposits held by euro area residents in the money-holding sector (excluding MFIs and central government) with MFIs in the United Kingdom. (According to the international banking statistics, 42% of deposits held outside the euro area by non-MFI residents of the euro area are held with MFIs in the United Kingdom – the largest single share.)

The work undertaken in 2002 concerned euro area residents’ holdings of bank deposits outside the euro area. Euro area residents’ holdings of short-term marketable paper issued by banks abroad (part of the general question of identifying holdings of marketable paper) are also part of liquid assets held abroad, as are holdings of non-monetary instruments such as short-dated government debt and commercial paper. Identifying the best sources of information on these would need further study.

Annex

Quarterly balance of payments of the euro area

I. **Current account**

Goods

Services

Income

Compensation of employees

Investment income

— Direct investment

— Income on equity

— Income on debt (interest)

— Portfolio investment

— Income on equity (dividends)

— Income on debt (interest)

— Bonds and notes

— Money market instruments

— Other investment

Current transfers

II. **Capital account**

III. **Financial account**

Direct investment

Abroad

— Equity

(i) MFIs (excluding central banks)

(ii) Non-MFIs

— Reinvested earnings

(i) MFIs (excluding central banks)

(ii) Non-MFIs

— Other capital

(i) MFIs (excluding central banks)

(ii) Non-MFIs

In the reporting economy

— Equity

(i) MFIs (excluding central banks)

(ii) Non-MFIs

— Reinvested earnings

(i) MFIs (excluding central banks)

(ii) Non-MFIs

Source: Guideline ECB/2003/7, Annex II

— Other capital

(i) MFIs (excluding central banks)

(ii) Non-MFIs

Portfolio investment

Equity securities

(i) Monetary authorities

(ii) General government

(iii) MFIs (excluding central banks)

(iv) Other sectors

Debt securities

— Bonds and notes

(i) Monetary authorities

(ii) General government

(iii) MFIs (excluding central banks)

(iv) Other sectors

— Money market instruments

(i) Monetary authorities

(ii) General government

(iii) MFIs (excluding central banks)

(iv) Other sectors

Financial derivatives

(i) Monetary authorities

(ii) General government

(iii) MFIs (excluding central banks)

(iv) Other sectors

Other investment

(i) Monetary authorities

— Loans/currency and deposits

— Other assets/liabilities

(ii) General government

— Trade credits

— Loans/currency and deposits

— Other assets/liabilities

(iii) MFIs (excluding central banks)

— Loans/currency and deposits

— Other assets/liabilities

(iv) Other sectors

— Trade credits

— Loans/currency and deposits

— Other assets/liabilities

Reserve assets

Monetary gold

Special drawing rights

Reserve position in the International Monetary Fund (IMF)

Foreign exchange

— Currency and deposits

  — With monetary authorities

  — With MFIs (excluding central banks)

— Securities

  — Equities

  — Bonds and notes

  — Money market instruments

— Financial derivatives

Other claims

Chapter 30

Annual and quarterly accounts of general government

Formalising the provision of annual government accounts data. The quest for quarterly data on government non-financial and financial transactions to complement monetary analysis.

The ESA 95 requires Member States to provide detailed accounts of the general government sector, with a breakdown by sub-sector, at annual frequency. For purposes of the Excessive Deficit Procedure, the requirement is for (a limited amount of) annual data to be submitted to twice-yearly notification deadlines.

The ECB (and previously the EMI) has long used annual data on government accounts, relying on NCBs for supplementary information, estimated outturns for the latest year, and projections for the current year. Chapter 14 in Part A described the provision as it was at the start of Economic and Monetary Union. Recently the STC has begun to prepare an ECB Guideline to formalise the provision of annual data on general government revenue and expenditure, and on the debt/deficit adjustment (an analysis of the difference between the deficit or surplus and the change in government debt outstanding), with a detailed analysis of government debt itself. The purpose of the Guideline is not to extend the request for data, but to strengthen its provision, and in particular to make it easier for NCBs to devote sufficient resources to the purpose themselves and to persuade other national statistical authorities to give it due attention where they are the source of the data.

The quest for quarterly data on government accounts has a different aim. It is part of the justification for quarterly financial accounts for the euro area – an ingredient in a comprehensive statement of financial transactions and balance sheets covering all sectors of the euro area economy – and, when it becomes possible to compile them, top-to-bottom sectoral accounts. Although the government sector may not be greatly influenced by monetary policy, its size means that government transactions and balance sheets must be reckoned with in conducting monetary policy. As the ECB noted in an opinion on a draft European Parliament and Council Regulation on quarterly government financial accounts, *"These government sector integrated accounts will facilitate the detailed analysis of fiscal policy impulses, of specific elements of the ECB monetary policy transmission process related to government and of related income and wealth effects on a quarterly basis"* (CON/2003/12).[78] The Monetary Committee/EFC, wishing to monitor economic policy generally in EMU, was from its first report to ECOFIN Ministers in January 1999 concerned to promote the development of quarterly general government accounts, covering both transactions and financial assets and liabilities. Quarterly financial and non-financial accounts of general government were a priority in the September 2000 Action Plan concerning statistical requirements for EMU.

[78] Opinion of the ECB dated 8 July 2003.

The ESA 95 (Council Regulation (EC) No 2223/96) required very little quarterly information on government transactions – only government final consumption expenditure was to be specified, broken down into “individual” and “collective” expenditure, though of course other government transactions would be included in other main aggregates. Progress with expanding the information on quarterly government accounts was slow, reflecting difficulties in some countries in collecting timely quarterly data from local and regional authorities, and perhaps also a suspicion in some Member States that the results might be used to make notifications and the Excessive Deficit Procedure a quarterly exercise. In early 2000, however, the Commission adopted a Regulation (No 264/2000) concerning short-term public finance statistics in the context of the ESA 95. Regulation No 264/2000 requires Member States to transmit quarterly data on taxes and social contributions (on the receipts side), and on social benefits (on the expenditure side). This provision, with quarterly data from 1991 required by mid-2002, in practice covered a large part of general government revenue and a significant part of expenditure – as the recitals noted, *“early warning signals of possible risks to budgets and useful information on cyclical developments in the economy”*. A second step came with European Parliament and Council Regulation No 1221/2002 on quarterly non-financial accounts for general government. Regulation No 1221/2002 completes the list of categories constituting general government revenue and expenditure (recital 6),[79] requiring current data and back data from 1999 by mid-2002. Unlike Regulation No 264/2000 (but like the new Regulation – see below), Regulation No 1221/2002 requires the Commission to report to the European Parliament and Council on the quality of the quarterly data by end-2005, but does not restrict use of the data in the meantime. The third step was another European Parliament and Council Regulation on quarterly financial accounts for general government, adopted in March 2004 (No 501/2004). This Regulation requires Member States to provide both quarterly transactions data in financial assets and liabilities, and quarterly balance sheet data, in a good degree of detail and with some counterparty information, with back data from 1999 (or end-1998 for balance sheets). Back data, and also current data on holdings of unquoted shares and other equity, may be estimated. In practice, Member States were already providing data relating to central government and social security funds, and in some cases for state and local governments as well. Between them, therefore, Regulations Nos 264/2000, 1221/2002 and 501/2004 cover the full range of quarterly general government transactions and quarterly general government financial balance sheets. They enable general government transactions to be monitored, in the context of monetary analysis, in a much more satisfactory way, and will provide important input to the quarterly sectoral accounts described in Chapter 31.

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[79] Perhaps surprisingly, the ESA 95 did not originally define general government revenue and expenditure. The definitions are contained in an amending Commission Regulation, No 1500/2000.

Chapter 31

Quarterly sectoral accounts

Sectoral accounts (balance sheets and transactions) combine information from economic and financial accounts. Quarterly frequency needed for monetary policy purposes. Priorities for users in an area where complete accounts are some way off.

Complete accounts for each institutional sector are the best possible statistical representation of the sector's economic and financial actions. A single set of accounts for each institutional sector – one balance sheet or a single period's transactions – is of limited value. As data accumulate over economic cycles, however, sectoral accounts may be expected, if carefully interpreted, to reveal suggestive relationships or behavioural constraints. Thus ratios of debt to financial assets, debt servicing costs in relation to disposable income, the saving ratio, the operating surplus of corporations in relation to previously distributed income or balance sheet size, and for all sectors the structure of the financial balance sheet, in particular the maturity of assets and liabilities, may point forward to attempts to retrench or to expand, with implications for economic activity and prospects for inflation. The Federal Reserve Board has used data of this kind in its policy analysis for some 50 years.

The ESA 95 provides information to compile a complete account for each of the institutional sectors, but only at annual frequency. For households, for example, that means a detailed statement of income, and then of certain uses of income (payment of taxes, social contributions, etc.), leaving disposable income; final consumption, and thus saving as the difference between disposable income and consumption, and, after allowance for net capital transfers, the change in household net worth; then expenditure on fixed capital and certain other capital account items, leaving net borrowing/net lending; and, finally, the detailed financial transactions which add up to net borrowing/lending and which comprise the financial account. The ESA 95 also provides for opening and closing balance sheets and reconciliation accounts, analysing the difference between the change in the balance sheet and net lending/net borrowing.

Institutional sectoral accounts for monetary policy purposes need to be reasonably detailed, and quarterly. Annual data, as required by the ESA 95, are unsuitable for conjunctural analysis and forecasting. At present derogations mean that there are gaps even in the annual data; and only two euro area Member States produce anything close to full quarterly sectoral accounts.

Quarterly sectoral accounts were a priority in the September 2000 Action Plan on statistical requirements for EMU. In June 2001, the CMFB discussed a users' vision for a system of quarterly European accounts compatible with the ESA 95. In 2002 a joint ECB/Commission task force was set up to draft a European Parliament and Council Regulation on quarterly sectoral accounts. Meanwhile the Council and Commission report on statistics in February 2003 made a commitment to include quarterly sectoral accounts in the principal European economic indicators published by Eurostat by 2005, with a timeliness of 90 days.

Rather than seeking legislation requiring all Member States to provide a full set of quarterly accounts by 2005 (which is probably not realistic), the approach is likely to be a framework European Parliament and Council Regulation within which Member States, at least initially, would provide sufficient coverage (80% or more) of at least the items needed for the compilation of key aggregates; for users, the most important of these are household disposable income and saving, and profits of and investment by non-financial corporations. Since these items are not directly observable but are each derived from several other items, providing these key items alone requires considerable information with 80% coverage for reliability.[80] While it is important that such information should eventually be provided within an integrated accounting framework, expediency may require a piecemeal approach at first. A reporting arrangement of the kind described here would probably not, at first, permit the compilation of quarterly statistics for individual euro area Member States separately, though that would remain a longer-term aim because national economies and financial structures probably remain sufficiently different for individual country data to cast further light on the results.

The work on quarterly accounts of general government, approaching completion at the end of 2003, will provide among other things indispensable input to quarterly sectoral accounts. Aside from the development of government accounts described in Chapter 30, much of the technical effort thus far has been devoted to making the euro area balance of payments statistics, the source to be preferred over an aggregation of national statistics, fully suitable for use as the rest of the world account in quarterly sectoral accounts. This matter was discussed in Chapter 29 in connection with the report of the joint task force of the BP&ER and MUFA Working Groups in March 2003.

[80] The aim of 80% coverage is a feature of the September 2000 Commission/ECB Action Plan on EMU statistical requirements – see also Chapter 36.

Other needs for improvement in the light of experience

Chapter 32

Extensions to MFI balance sheet statistics

Extensions to data content to meet growing interest in sectoral holdings of money (which could not be compiled from the initial provision of data) and sectoral lending. Fuller information to meet changing needs, much of it to be available monthly. Steps to identify holdings by non-residents of the euro area of shares and units issued by euro area money market funds. Other tidying up measures. Procedure for formulating these statistical requirements and preparing Regulations ECB/2001/13 and ECB/2002/8 (effective January and May 2003 respectively).

The July 1996 implementation package proposals included monthly and quarterly balance sheet data to be reported by MFIs. The definition of an MFI and the content of this part of the package were discussed in Part A (Chapters 5-7). It may be worth recalling how the implementation package summarised the need for these data. *"[The aim is] monthly data on the business of MFIs, in sufficient detail to allow flexibility in the calculation of the monetary aggregates and counterparts covering the single currency area. The balance sheet may also provide the statistical basis for a minimum reserve requirement … Other data requirements at quarterly frequency [will provide] further detail on certain items of the balance sheet to support monetary analysis"*. The implementation package requirements for monthly and quarterly MFI balance sheet data were, with minor changes, incorporated in Regulation ECB/1998/16.

Like other implementation package requirements, the MFI balance sheet data were kept to a minimum because time was short up to the start of Stage Three, and because there were many competing claims on the resources needed to develop them in the EMI, the NCBs and reporting agents. In particular, the monthly data required under Regulation ECB/1998/16 provided only limited sectoral detail; and the Regulation did not oblige MFIs to report information to enable flows data to be compiled from the balance sheet, relying instead on a variety of sources available to NCBs. The calculation of growth rates of monetary aggregates and MFI lending to that extent rested on a weak base. These two rather different areas of enhancement – to the data content of the MFI balance sheet, and the provision of information to improve the compilation of flows data – are the subject of this and the following chapter. The enhancements were incorporated, together with various earlier amendments to Regulation ECB/1998/16 and material transferred from the money and banking statistics Guideline and the compilation guide, in a new codified Regulation, ECB/2001/13. The new Regulation was in turn amended in 2002 by Regulation ECB/2002/8 concerning the reporting of holdings of shares and units issued by one category of MFIs, the money market funds.

The extensions to data content

At the time of the implementation package it had seemed sufficient to provide a detailed sectoral breakdown of deposits and loans vis-à-vis domestic and other euro area residents at quarterly frequency only. Because there was only a limited sectoral breakdown in the monthly statistics, with no maturity cut-offs in the quarterly data, sectoral holdings of money by households, non-financial corporations and non-monetary financial corporations could not be compiled, and their borrowing from MFIs could be compiled only quarterly. This limitation became a disadvantage. Users conducting monetary policy analysis came to attach considerable significance to sectoral holdings of money and sectoral lending because (for example) the use to which households and financial corporations put their funds might have different implications for economic activity and inflation, and users wanted to monitor these sectoral flows and positions each month. They also wanted limited monthly currency (euro/other currency) and maturity information about these sectoral deposits and borrowing from MFIs. For similar reasons they wanted a monthly (rather than quarterly) breakdown of the purpose of lending to households, between housing and consumer loans. Users also wanted the sectoral analysis of MFI credit to be completed by the coverage of MFIs' holdings of shares and other equity, though this sectoral breakdown (like the detailed sectoral breakdown of their holdings of other securities) need only be quarterly. These enhancements concerned only MFIs' business with residents of the euro area: it remained the case that only a broad sectoral breakdown (banks, general government, other sectors) of business with non-residents of the euro area was required, for which a quarterly frequency would suffice. (Some further maturity detail of business with non-residents of the euro area nevertheless formed part of the new requirements for balance of payments purposes – see below).

Thus a central aim of the revision of Regulation ECB/1998/16 was to expand the range of stock statistics collected. In order to meet essential requirements for monetary policy purposes, the main enhancements concerned the range of data collected at monthly frequency, including the integration into the monthly reporting of data that were previously collected only quarterly, in particular a breakdown of deposit liabilities by sub-sector and further by maturity/currency, and of loans by sub-sector/maturity and purpose (lending for house purchase; consumer credit). The aim was to provide more monthly information about money holdings and borrowing. To keep down the costs of providing new information, users agreed to retain a quarterly sectoral breakdown of MFI holdings of securities other than shares. A quarterly sub-sector breakdown of holdings of shares and other equity, which had previously not been broken down by sector of the issuer, was added in order to complete the analysis of total credit by sub-sector. For balance of payments statistics purposes, some additional monthly and quarterly breakdowns were added for deposits and loans vis-à-vis the rest of the world – a maturity split at one year to be reported monthly, and a further analysis by currency to be reported quarterly. While these enhancements (together with the new valuation data discussed in the next chapter, and the interest rate data required under Regulation ECB/2001/18 described in Chapter 24) added considerably to the monthly data requirement, the 15-working day deadline for submission of national aggregated data by the NCBs to the ECB could not be relaxed without risk to publication deadlines and inclusion of the latest month's data in briefing for the first Governing Council meeting of the following month. Recognising the likelihood of teething problems, however, the STC with the agreement of the MPC proposed a one-month extension to the deadline for transmitting the new data in calendar year 2003.

The ECB took advantage of the new codified Regulation to transfer some material (items of definition and classification) from the 1998 compilation guide to the

Regulation, to form part of the detailed description of instrument categories in Annex I, Part 3. There was no change in the content of reporting, but these definitions and classifications became part of the legal requirement. The items transferred concerned finance leases, bad debt, trust loans, traded loans, subordinated loans/securities, transit and suspense items, residual items (remaining assets/liabilities), banknotes and coin in circulation (viewed as liabilities of MFIs), margin payments, loans (viewed as liabilities of MFIs), repurchase agreements, non-marketable debt securities and subordinated debt (again, both viewed as liabilities), financial derivatives, and accrued interest on loans and deposits.

Other changes were introduced, with minimal effect on reporting requirements. Regulation ECB/1998/16 had distinguished, on both the assets and the liabilities side of the MFI balance sheet, between debt securities and money market paper, with issues and holdings of the latter being reported without a maturity breakdown. In practice almost all money market paper has an original maturity of less than a year. Since applying this distinction caused difficulty and brought little practical benefit, Regulation ECB/2001/13 merged the two categories (which means that the requirement for a maturity breakdown extends to money market paper, though with little significance). Two changes concerned e-money. The definition of an MFI in Annex I, Part 1 of Regulation ECB/2001/13 reflects the classification of e-money institutions as credit institutions (if they were not already classified as such) in the European Parliament and Council Directive 2000/46/EC; and Annex I, Part 3 makes it clear that the liability category "overnight deposits" includes all balances representing prepaid amounts whether under hardware-based or software-based e-money schemes.[81] The general definitions in Annex I, Part 3 were amended to clarify the reporting of an MFI's business with its branches outside the euro area, relevant to the calculation of its reserve base for minimum reserves purposes. The new Regulation contains a handful of other, mainly editorial, changes.

Identifying holdings of shares/units issued by MMFs

Broad money (M3) in the euro area includes holdings by residents of the euro area of shares and units issued by MMFs located in the euro area. Holdings of such instruments by non-residents of the euro area are in principle excluded. At the start of Stage Three it was assumed that any holdings of such instruments by non-residents of the euro area could be ignored. It later became clear that this assumption was untenable, since shares/units of MMFs in Ireland in particular were held in substantial and rapidly growing amounts by non-residents of the euro area. The consequence was that the level and, more important, the growth rate of measured M3 were substantially overstated. An appropriate adjustment to M3 was made in May 2001. (The general issue of holdings of monetary instruments by non-residents of the euro area is the subject of Chapter 34.)

In 2001-02 the ECB relied on information provided voluntarily to estimate holdings outside the euro area of shares and units issued by euro area MMFs. Preparing legally

[81] Annex IV of Guideline ECB/2003/2 says "*For statistical purposes, e-money refers to an electronic store of prepaid monetary value on a technical device, such as a prepaid card…To be considered as e-money [such] devices must operate as general purpose payment instruments*". The Guideline requires NCBs to provide the ECB with further monthly summary data on the e-money liabilities of MFIs at six-monthly intervals.

enforceable provisions took some time because of the nature of the problem. The provisions accordingly formed the subject of a further, amending, Regulation (ECB/2002/8), and were not part of Regulation ECB/2001/13 as adopted in late 2001. There are two distinct cases. In the first, the holders of the MMF shares/units are registered. In this instance the MMF, or whoever holds the register, can be required to report from the register the amount of holdings of non-residents of the euro area. The second case is the more difficult one, in which the shares/units are bearer documents. Here the MMF is unlikely to know who holds the shares/units. The amending Regulation ECB/2002/8 provides for use of one of three sources, or a combination of them. The issuing MMF may be able to obtain information from the agent distributing the shares/units, or from another entity involved in their issuance, transfer or repurchase. The second possible source is the custodian with whom the shares/units are lodged, if located in the euro area and if an MFI or non-monetary financial intermediary (other entities are not bound by ECB regulations). The third possibility is an MFI or other financial institution in a position to report transactions in MMF shares/units with non-residents of the euro area, despite not being the issuer, agent or custodian. The NCB concerned must agree the appropriate approach with the ECB, depending on national circumstances. Monthly data on the residency of holders of MMF shares/units must be reported to the ECB by the 15th working day following the reference month, with a concession allowing one month's delay until the end of 2003. The amending Regulation took effect from May 2003. The text formally brings non-monetary financial intermediaries into the ECB's actual reporting population, as EU Council Regulation (EC) No 2533/98 permits. It also provides for the case in which MMFs are in the statistical tail (i.e. exempt from full reporting), while nevertheless requiring NCBs to provide an estimate of their shares/units held outside the euro area for grossing-up purposes.

The procedure for formulating statistical requirements and preparing Regulations ECB/2001/13 and ECB/2002/8

As explained earlier, ECB users stated that more detailed data were needed for a proper analysis of the monetary aggregates and their counterparts. A detailed monthly breakdown by maturity/currency of M3 deposits by sub-sector was considered to be essential for the interpretation of monetary developments and their implications for inflation. Higher frequency data on loans by sector and maturity were considered necessary to monitor credit developments. The main conclusion of the cost assessment exercise was that the proposed new requirements were broadly feasible, though with some reservations about the most costly breakdowns, i.e. the cross-classification of deposits by sub-sector and maturity and further by currency.

In the light of the cost assessment exercise, ECB users reviewed their initial requirements. They confirmed that more detailed information on deposit liabilities and on loans was essential for a proper analysis of monetary developments. They accepted that all other stock data including the new request for a sectoral breakdown of equity holdings should continue to be reported at quarterly frequency. While it was important that the new data should, once established, meet the existing 15-working day timetable for submission to the ECB, users could accept a longer deadline for a transitional year.

User committees (MPC, MOC, BSC) expressed themselves satisfied with the modified proposals. The detailed breakdowns and the quarterly sectoral analysis of MFI holdings of equity and other shares attracted good if not unanimous support. The proposals were put to the Governing Council for approval in principle in July 2001 (the main part of the proposals) and October 2001 (the sectoral breakdown of shares and other equity); the Governing Council adopted Regulation ECB/2001/13 in November 2001, to take effect in January 2003.[82] The amending Regulation ECB/2002/8 (concerning non-resident holdings of MMF shares and units) was adopted in November 2002, to take effect in May 2003. As in the case of the MFI interest rates Regulation discussed in Chapter 24, the Working Group on Money and Banking Statistics and the STC were involved throughout.

Other changes concerning MFI balance sheet data

MFI balance sheet statistics are used to calculate the reserve base of MFIs subject to reserve requirements.[83] Regulation ECB/1998/16 set out no specific rules for the calculation of reserve requirements of credit institutions involved in a merger or division. In response to cases which had arisen, the Governing Council adopted in August 2000 an amendment to Regulation ECB/1998/16, setting out in detail the treatment of such cases for purposes of minimum reserves. The text forms the appendix to Annex II to Regulation ECB/2001/13.

The second point concerns the use of balance sheet statistics for minimum reserves purposes, but not the reporting requirement itself. A credit institution may exclude from its reserve base any of its own money market paper and short-term debt securities held by other credit institutions in the euro area. Often however the individual institution cannot identify the holder of its own issues. At aggregate level the ECB can calculate the proportion of such paper held by credit institutions in the euro area, from reported total issues and total holdings. Individual institutions may use this proportion (the macro ratio) in calculating their reserve base. The standard deduction, set at 10% in 1998 on the basis of provisional aggregate balance sheet data, was revised to 30% in December 1999 in the light of experience in the first months of Economic and Monetary Union.

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[82] Article 8 of the new Regulation as adopted stated that Regulation ECB/1998/16 was repealed from January 2002, whereas Annex V said that reporting under the new Regulation was to begin only in January 2003. It was necessary to issue a correction deferring the date of repeal to January 2003.

[83] Only credit institutions, a sub-set of MFIs (though by far the largest one), are subject to reserve requirements. The EMI had decided in December 1995 that the monthly balance sheet return would be used to calculate an institution's reserve base.

Annex 1

Part of balance sheet data required under Regulation ECB/2001/13 – main items (monthly) and additional sector breakdowns (quarterly)

Table 1

(Stocks)

Data required to be provided at monthly frequency

Cells in thin print are reported solely by credit institutions subject to reserve requirements (RRs) (5)

BALANCE SHEET ITEMS	A. Domestic								
			Non-MFIs						
			General government		Other resident sectors				
	MFIs (3)	of which credit institutions subject to RRS, ECB and NCBs	Central government	Other general government	Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
LIABILITIES									
8. **Currency in circulation**									
9. **Deposits**	*	*	*						
up to 1 year									
over 1 year									
9e. **Euro**	*	*							
9.1e. **Overnight**				*	*				
9.2e. **With agreed maturity**									
up to 1 year				*	*				
over 1 and up to 2 years				*	*				
over 2 years (1)	*	*	*	*	*				
9.3e. **Redeemable at notice**									
up to 3 months (2)				*	*				
over 3 months				*	*				
of which over 2 years (4)	*	*	*	*	*				
9.4e. **Repos**	*	*	*	*	*				
9x. **Foreign currencies**									
9.1x. **Overnight**				*	*				
9.2x. **With agreed maturity**									
up to 1 year				*	*				
over 1 and up to 2 years				*	*				
over 2 years (1)	*	*	*	*	*				
9.3x. **Redeemable at notice**									
up to 3 months (2)				*	*				
over 3 months				*	*				
of which over 2 years (4)	*	*	*	*	*				
9.4x. **Repos**	*	*	*	*	*				
10. **MMFs shares/units**									
11. **Debt securities issued**									
11e. Euro									
up to 1 year									
over 1 and up to 2 years									
over 2 years									
11x. Foreign currencies									
up to 1 year									
over 1 and up to 2 years									
over 2 years									
12. **Capital and reserves**									
13. **Remaining liabilities**									

Source: Regulation ECB/2001/13, Annex I

B. Other participating Member States									C. Rest of the world	D. Not allocated
		Non-MFIs								
		General government		Other resident sectors						
MFIs (3)	of which credit institutions subject to RRS, ECB and NCBs	Central government	Other general government	Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)		
(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
*	*	*							*	
*	*									
			*	*						
			*	*						
			*	*						
*	*	*	*	*					*	
			*	*						
			*	*						
*	*	*	*	*					*	
*	*	*	*	*					*	
			*	*						
			*	*						
			*	*						
*	*	*	*	*					*	
			*	*						
			*	*						
*	*	*	*	*					*	
*	*	*	*	*					*	
										*
										*
										*
										*
										*
										*

BALANCE SHEET ITEMS	A. Domestic								
	MFIs	Non-MFIs							
		General government	Other resident sectors						
			Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)		
							Consumer credit	Lending for house purchase	Other (residual)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
ASSETS									
1. **Cash**									
1e. of which euro									
2. **Loans**									
up to 1 year									
over 1 year and up to 5 years									
over 5 years									
2e. of which euro									
3. **Securities other than shares**									
3e. Euro									
up to 1 year									
over 1 and up to 2 years									
over 2 years									
3x. **Foreign currencies**									
up to 1 year									
over 1 and up to 2 years									
over 2 years									
4. **MMF shares/units**									
5. **Shares and other equity**									
6. **Fixed assets**									
7. **Remaining assets**									

B. Other participating Member States									C. Rest of the world	D. Not allocated
MFIs	Non-MFIs									
	General government	Other resident sectors								
		Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)				
						Consumer credit	Lending for house purchase	Other (residual)		
(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)

General note:
Cells marked with an * are used in the calculation of the reserve base. With respect to debt securities, credit institutions will either present proof of liabilities to be excluded from the reserve base or apply a standardised deduction of a fixed percentage specified by the ECB.

Notes
(1) Including administratively regulated deposits.
(2) Including non transferable sight savings deposits.
(3) Credit institutions may report positions vis-à-vis 'MFIs other than credit institutions subject to minimum reserves, ECB and NCBs' rather than vis-à-vis 'MFIs' and 'credit institutions subject to minimum reserves, ECB and NCBs', provided that no loss of detail is implied and no bold printed positions are affected.
(4) The reporting of this item is voluntary until further notice.
(5) Depending on the national collection systems and without prejudice to full compliance with the definitions and classification principles of the MFI balance sheet set out in this Regulation, credit institutions subject to reserve requirements may alternatively report the data necessary to calculate the reserve base (cells marked with an *), except those on negotiable instruments, in accordance with the table below, provided that no bold printed positions are affected. In this table, strict correspondence with Table 1 must be ensured as described below.

	Reserve base (excluding negotiable instruments), calculated as the sum of the following columns in Table 1 (Liabilities): (a) − (b) + (c) + (d) + (e) + (j) − (k) + (l) + (m) + (n) + (s)
DEPOSIT LIABILITIES (Euro and foreign currencies combined) TOTAL DEPOSITS	
9.1e + 9.1x 9.2e + 9.2x 9.3e + 9.3x 9.4e + 9.4x	
of which: 9.2e + 9.2x with agreed maturity over two years	
of which: 9.3e + 9.3x redeemable at notice over two years	Voluntary reporting
of which: 9.4e + 9.4x repos	

Table 2

Sector breakdown

Data to be provided at a quarterly frequency

BALANCE SHEET ITEMS	A. Domestic											
	Non-MFIs											
	General government (S. 13)						Other resident sectors					
			Other general government									
	Total	Central govern-ment(S.-1311)	Total	State govern-ment (S.1312)	Local govern-ment (S.1313)	Social security funds (S.1314)	Total	Other financial interme-diaries + financial auxili-aries (S. 123 + S. 124)	Insur-ance corpo-rations and pension funds (S. 125)	Non-fi-nancial corpo-rations (S. 11)	Househ-olds + non-profit institu-tions serving house-holds (S. 14 + S. 15)	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
LIABILITIES												
8. **Currency in circulation**												
9. **Deposits**		M										
9.1. **Overnight**			M				M	M	M	M	M	
9.2. **With agreed maturity** (1)			M				M	M	M	M	M	
9.3. **Redeemable at notice** (2)			M				M	M	M	M	M	
9.4. **Repos**			M				M	M	M	M	M	
10. **MMFs shares/units**												
11. **Debt securities issued**												
12. **Capital and reserves**												
13. **Remaining liabilities**												
ASSETS												
1. **Cash**												
2. **Loans**	M						M					M
up to 1 year								M	M	M	M	
over 1 and up to 5 years								M	M	M	M	
over 5 years								M	M	M	M	
3. **Securities other than shares**	M						M					M
up to 1 year												
over 1 year												
4. **MMFs shares/units**												
5. **Shares and other equity**							M					
6. **Fixed assets**												
7. **Remaining assets**												

M 'Monthly data requirements', see Table 1.

(1) Including administratively regulated deposits.
(2) Including non-transferable sight deposits.

B. Other participating Member States										C. Rest of the world			
Non-MFIs										Total			
General government (S. 13)					Other resident sectors							Non-banks	
	Other general government												
Central govern-ment (S.1311)	Total	State govern-ment (S.1312)	Local govern-ment (S.1313)	Social security funds (S.1314)	Total	Other financial interme-diaries + financial auxili-aries (S. 123 + S. 124)	Insur-ance corpo-rations and pension funds (S. 125)	Non-fi-nancial corpo-rations (S. 11)	Househ-olds + non-profit institu-tions serving house-holds (S. 14 + S. 15)		Banks	General govern-ment	Other resident sectors
(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
M										M			
	M				M	M	M	M	M				
	M				M	M	M	M	M				
	M				M	M	M	M	M				
	M				M	M	M	M	M				
					M					M			
						M	M	M	M				
						M	M	M	M				
						M	M	M	M				
					M					M			
					M					M			

Annex 2

Securitisations and other transfers of loans to third parties

MFIs from time to time sell loans on their balance sheets, or otherwise transfer them. For the MFI sector as a whole in the ECB's aggregated statistics, a sale or transfer of loans to parties outside the MFI sector will probably show up as a fall in loans together with increased holdings of securities.

MFIs are not required under Regulation ECB/2001/13, as amended, to report securitisations or other transfers of loans from their balance sheets. Nevertheless, it is useful for the ECB to know the extent of securitisations and other loan transfers, since the MFI balance sheet alone might give a false impression of financing available to other sectors. The ECB estimates that in 2002 recorded growth of loans to the "other resident" sectors might have been reduced by 0.8 percentage point by securitisations or other loan transfers, though the net effect on MFI credit would have been much lower because of associated purchases of securities by MFIs.

Guideline ECB/2003/2 accordingly obliges NCBs to pass available information on securitisations and other loan transfers to the ECB. They are not required to collect data specially for the purpose. This information may take one of three forms:

- **Gross flow**: the amount of loans initially granted by MFIs to the "other resident" sectors that are securitised or otherwise transferred to parties outside the MFI sector in the reporting period. The third parties are usually resident or non-resident finance vehicles, which usually issue securities to finance the credits acquired. No allowance is made for the redemption or repurchase of loans sold off earlier.
- **Net flow**: the net change in the stock of such securitised or otherwise transferred loans, equal to gross securitisations/transfers in the current reporting period minus loan repayments made by the borrower or loans bought back by the initiating MFI.
- **Stock**: the outstanding amount of such securitised/transferred loans. The stock equals accumulated net flows (ignoring any valuation, etc. adjustments).

The ECB does not (end-2003) publish estimates of the amount of securitisations and other loan transfers. The present intention is to circulate data internally in 2004. The collection of information may then be put on a firmer footing, probably in the first place as part of steady-state arrangements to collect OFI data, since in many cases the purchasers/transferees of securitised loans initiated by MFIs are finance vehicles specialised in the business, which are part of the OFI sector, S 123 in the ESA 95.

Chapter 33

Valuation adjustments

Better information to be provided by MFIs on valuation and certain other factors affecting balance sheet levels. What "reclassification and other statistical factors" and revaluations are. Scope of new requirements. Procedure for formulating requirements and preparing the valuation provisions of Regulation ECB/2001/13.

Valuation adjustments in the new MFI balance sheet Regulation

The ECB compiles the stock of money and MFI lending in the euro area from (principally) aggregated balance sheet outstandings reported by MFIs. The growth of the monetary aggregates and the flow of lending are not, however, calculated solely as the change in the reported outstandings. Instead, the changes in balance sheet levels are adjusted for reclassifications, revaluations and certain other factors influencing them, and growth rates and flows are calculated from the adjusted levels. Flows calculated in this manner correspond to "transactions" in the ESA 95, that is to the acquisition or disposal of financial assets or to borrowing or repayment of borrowing. The procedure was explained in a Box ("*The derivation and use of flow data in monetary statistics*") in the February 2001 Monthly Bulletin. Reclassifications, revaluations, etc. are called "non-transaction-related factors". The following non-transaction-related factors are taken into account in order to derive adjusted flows from differences in amounts outstanding of M3.

Reclassification and other statistical factors

These are changes in the assets and liabilities on the balance sheet of the MFI sector arising from:

- changes in the MFI reporting population caused by changes to sector classifications (e.g. an institution is newly classified as an MFI and moves from the money holding sector to the MFI sector);
- corporate restructuring affecting MFIs (e.g. mergers, acquisitions, divisions of existing businesses);
- the reclassification of assets and liabilities (e.g. a certain type of savings deposit is reclassified from a deposit redeemable at notice to an overnight deposit);
- the correction of reporting errors which cannot be carried back but are believed to have affected earlier data.

Revaluations

Revaluations are changes in the level outstanding of the assets and liabilities of the MFI sector arising from valuation changes. A distinction is made between two types of revaluation:

a) exchange rate revaluations
The Eurosystem's monetary aggregates include instruments denominated in foreign currencies issued by domestic MFIs, the value of which in euro is affected by exchange rate variations. The same point applies to the counterparts to broad money.

b) other revaluations
These are changes in the balance sheet of an MFI arising from changes in the value of securities held or issued by the MFI, except those stemming from exchange rate fluctuations, principally changes in the value of securities arising from movements in their market price. Write-downs or write-offs of loans also fall into this category; in the absence of a flow valuation adjustment, they would cause the flow of new lending to be understated.

The Guideline on money and banking statistics explained the procedure for the compilation of flows statistics from the reported information (as in Annex V in the version of the Guideline dated November 2000, ECB/2000/13). Exchange rate adjustments were to be made by the ECB using monthly data on the split between euro and non-euro business, and fuller quarterly detail on the currency composition of MFI assets and liabilities. For reclassifications and other revaluations, the ECB received from NCBs the best information available to them, whether from MFIs or from other sources. Information on certain reclassifications and correction of reporting errors arises from the reporting system itself; NCBs collected information relevant to other reclassifications and other revaluations as best they could; it might be neither complete nor timely. To that extent the calculated growth rates of the monetary aggregates and MFI lending had a fragile basis.

In addition therefore to the more detailed balance sheet data described in Chapter 32, the main innovation in the new MFI balance sheet Regulation ECB/2001/13 was an obligation laid on MFIs to report certain information relevant to the flow valuation adjustment, which put the adjustment and thus the calculated growth rates and flows on a sounder basis while leaving the data on balance sheet levels untouched. This improvement was very important to ECB users.

The reporting obligation placed on MFIs by the new Regulation concerns only the "revaluation adjustments", and within that write-offs/write-downs of loans and price revaluations in respect of securities. The requirement does not cover allowance for exchange rate changes and the reclassification adjustment. The ECB continues to calculate the monthly exchange rate adjustment from balance sheet information broken down by currency. Reclassifications are also excluded because relevant data are collected by the NCBs from sources available to them.

MFIs must report revaluation adjustments at least for the items marked "minimum" in the tables which form part of Annex I, Part 2 of the Regulation. MFIs may also provide flow valuation adjustments for other items. NCBs must send the ECB a complete set of adjustments, including for the voluntary items; estimates are acceptable for the latter. All the compulsory entries and most of the voluntary ones are on the assets side of the balance sheet, since – apart from the foreign currency adjustments which are excluded from the requirement – there is little scope for valuation changes among MFI liabilities. The minimum requirements include the separate identification of amounts written off or written down. In each case MFIs must provide information on the counterparties (domestic; resident elsewhere in the euro area; resident outside the euro area). Counterparties resident in the euro area are classified according to their institutional sector, with separate data for MFIs and other resident sectors, the latter with a further breakdown by sub-sector. The household sector is reported with an additional breakdown according to the purpose of the loan, i.e. consumer credit, lending for house purchase and other (residual). Total amounts are reported in respect of loans to the rest of the world, without any breakdown. A maturity or currency breakdown of adjustments to loans is not compulsory. The purpose of all this is to provide the best possible information on the flow of lending with the detail most relevant to monetary policy.

For securities, there are two possible approaches to deriving flows data. The first is to add up transactions, valued at transactions prices, in the reporting period. The difference between the total net value of transactions and the change in outstanding holdings valued at market prices on the latest and previous reporting dates is then the amount of "non-transactions". The second approach is to value securities held on the latest reporting date at the prices of the previous reporting date and at current prices. The difference between the value of the portfolio on the latest reporting date at prices of the previous date and its current value is the valuation adjustment, and the flow or "transaction" is calculated as the difference between the change in the value of the portfolio between the two reporting dates at current prices and the valuation adjustment. The first approach is called the transactions approach, and the second the balance sheet approach. The transactions approach is conceptually better because it measures transactions, the important variable, directly, and takes account of transactions where both the purchase and sale occur in the reference period. Because the necessary data are not usually available, however, the second approach is recommended in the ECB's guidance notes in the interests of consistency. The two approaches will usually produce different results.

The minimum requirement under Regulation ECB/2001/13 is to report monthly valuation adjustments for holdings of securities other than shares with an original maturity exceeding two years (shorter-dated securities are unlikely to experience substantial price changes), and for holdings of shares and other equity. MFIs must provide separate monthly valuation adjustments according to the place of residence of the issuer (domestic, in another euro area Member State, outside the euro area); only a very limited sectoral breakdown is required.

Because the information is needed to compile the monthly monetary aggregates and counterparts, the data on valuation adjustments are required to the same timetable as the MFI balance sheet data, in time for submission to the ECB on the 15th working day following the reporting date. The timetable was relaxed for a transitional year (2003). For valuation adjustment of securities, NCBs may exceptionally permit quarterly frequency and timeliness subject to conditions set out in Article 4.7 of the Regulation.

Procedure for formulating statistical requirements and preparing the valuation provisions of Regulation ECB/2001/13

As part of the enhancements to the original MFI balance sheet Regulation (ECB/1998/16), the proposals for revaluation adjustments were covered by the merits and costs procedure described in Chapter 32 and in more depth in Chapter 43.

Although the need for better information for purposes of valuation adjustment was strongly stated and not seriously challenged, this part of the proposals proved more contentious than the items discussed in Chapter 32. The cost assessment exercise showed that revaluation adjustments would be much more expensive to provide than the more detailed balance sheet data, especially the valuation adjustments for securities.

Some NCBs reported that meeting the 15-working day timetable would also cause serious difficulties for MFIs. After reviewing their initial proposals in the light of this reaction, ECB users considered the valuation adjustment to be essential for loans, with a breakdown by sub-sector and, for loans to households, further by “activity”. They could accept some flexibility in the provision of data for securities other than shares and other equity, but expressed a preference for monthly (rather than quarterly) reporting.

Regarding timeliness, ECB users agreed that longer reporting deadlines could be established for all new data items for a transitional period, but that the monthly data should thereafter be provided to the 15-working day deadline to permit a complete assessment of the monetary situation meeting the Governing Council timetable. Modifications were made to the reporting requirement for the revaluation adjustment. In particular, the simplified reporting scheme – the minimum requirement for a limited number of items – was developed to meet most of the original requirements but at substantially lower cost. As MMFs hold mainly paper with short maturities, NCBs could exempt them by derogation from reporting the revaluation adjustment. A threshold for the reporting of the valuation adjustment was considered but finally rejected on grounds of complication. An element of estimation was accepted for the valuation adjustment of securities. In a consultation of the interested ESCB committees, the MPC, MOC and BSC responded favourably. While the MPC and the BSC would have preferred the transaction approach as the standard approach to valuation adjustment of securities, data limitations restricted its use to certain defined circumstances in the final version of the Regulation.

Annex

Revaluation adjustments required under Regulation ECB/2001/13

Data required to be provided at monthly frequency

	BALANCE SHEET ITEMS	A. Domestic								
				Non-MFIs						
				General government		Other resident sectors				
		MFIs	of which credit institutions subject to RRs, ECB and NCBs	Central government	Other general government	Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
LIABILITIES										
8.	**Currency in circulation**									
9.	**Deposits**									
	up to 1 year									
	over 1 year									
9e.	**Euro**									
9.1e.	**Overnight**									
9.2e.	**With agreed maturity**									
	up to 1 year									
	over 1 year and up to 2 years									
	over 2 years									
9.3e.	**Redeemable at notice**									
	up to 3 months									
	over 3 months									
	of which over 2 years									
9.4e.	**Repos**									
9x.	**Foreign currencies**									
9.1x.	**Overnight**									
9.2x.	**With agreed maturity**									
	up to 1 year									
	over 1 and up to 2 years									
	over 2 years									
9.3x.	**Redeemable at notice**									
	up to 3 months									
	over 3 months									
	of which over 2 years									
9.4x.	**Repos**									
10.	**MMFs shares/units**									
11.	**Debt securities issued**									
11e.	Euro									
	up to 1 year									
	over 1 and up to 2 years									
	over 2 years									
11x.	Foreign currencies									
	up to 1 year									
	over 1 and up to 2 years									
	over 2 years									
12.	**Capital and reserves**									
13.	**Remaining liabilities**									

General note:
Series marked with the word ‘MINIMUM’ are reported by MFIs. NCBs may extend this requirement also to cover the series marked as blank cells (i.e. not containing the word ‘MINIMUM’).
Blank cells and MINIMUM cells are reported by the NCB to the ECB. The blank cells with a star on the liability side are assumed to be zero unless there is evidence to the contrary.

Source: Regulation ECB/2001/13, Annex I

B. Other participating Member States									C. Rest of the world	D. Not allocated
MFIs	of which credit institutions subject to RRs, ECB and NCBs	Non-MFIs								
		General government		Other resident sectors						
		Central government	Other general government	Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)		
(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
										*
										*
										*
										*
										*
										*

BALANCE SHEET ITEMS		MFIs	Non-MFIs							
			General government	Other resident sectors						
				Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)		
								Consumer credit	Lending for house purchase	Other (residual)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
ASSETS										
1.	**Cash**									
1e	of which euro									
2.	**Loans**	MINIMUM			MINIMUM	MINIMUM	MINIMUM	MINIMUM	MINIMUM	MINIMUM
	up to 1 year									
	over 1 year and up to 5 years									
	over 5 years									
2e.	of which euro									
3.	**Securities other than shares**									
	of which over 2 years (1)	MINIMUM	MINIMUM	MINIMUM						
3e.	Euro									
	up to 1 year									
	over 1 and up to 2 years									
	over 2 years									
3x.	Foreign currencies									
	up to 1 year									
	over 1 and up to 2 years									
	over 2 years									
4.	**MMFs shares/units**									
5.	**Shares and other equity** (1)	MINIMUM		MINIMUM						
6.	**Fixed assets**									
7.	**Remaining assets**									

General note:

Series marked with the word 'MINIMUM' are reported by MFIs. NCBs may extend this requirement also to cover the series marked as blank cells (i.e. not containing the word 'MINIMUM').

Blank cells and MINIMUM cells are reported by the NCB to the ECB.

(1) NCBs may requrest MFIs to report this item on a quarterly basis instead of monthly.

MFIs	Non-MFIs								C. Rest of the world	D. Not allocated
	General government	Other resident sectors								
		Total	Other financial intermediaries + financial auxiliaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households and non-profit institutions serving households (S. 14 + S. 15)				
						Consumer credit	Lending for house purchase	Other (residual)		
(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
MINIMUM			MINIMUM	MINIMUM	MINIMUM	MINIMUM	MINIMUM	MINIMUM	MINIMUM	
MINIMUM	MINIMUM	MINIMUM							MINIMUM	
MINIMUM		MINIMUM							MINIMUM	

Chapter 34

Non-resident holdings of monetary instruments[84]

Emergence of a problem affecting the measurement of broad money (M3). Separate approaches for identifying holdings by non-residents of the euro area of shares and units issued by euro area money market funds, and such holdings of monetary instruments issued by other MFIs in the euro area.

The ECB's narrower measures of money stock M1 and M2 comprise all euro-denominated notes and coin held outside the MFI sector, and certain deposits, in euro and foreign currency, held by residents of the euro area with banks located in the euro area. Holdings of deposits by central government are excluded from the aggregates; certain claims of euro area residents on central government (e.g. Treasury deposits) are added in. Since information about deposit holders is recorded by MFIs, it is relatively easy to confine M1 and M2 to deposits held by residents of the euro area. Broad money (M3) comprises M2 plus holdings by euro area residents (excluding MFIs and central government) of shares and units issued by MMFs in the euro area, and of marketable instruments issued by other MFIs in the euro area with an initial maturity of up to two years. Apart from MMF shares/units, marketable instruments comprise repurchase agreements[85] and debt securities of all kinds – money market paper, certificates of deposit, short-dated bank bonds, etc. While some of these instruments are in registered form, where the issuing institution maintains a register of holders, and in some other cases the issuing MFI in practice knows who holds the paper, very often the issuing MFI cannot identify the holder. In aggregate, holdings of such instruments within the MFI sector in the euro area can be deducted from the amount in issue using information reported on MFI balance sheets. Holdings by central government agencies in the euro area are reported monthly by NCBs and also deducted. This cannot be done for holdings by non-residents of the euro area. Nevertheless, the Guideline concerning money and banking statistics (ECB/1998/NP27) invited NCBs to volunteer information on non-resident holdings as a memorandum item. In the absence of a direct measure of non-resident holdings, or information volunteered by NCBs, the ECB began by attributing to other residents in the euro area, and so to M3, the difference between the total issue of marketable monetary instruments by MFIs in the euro area and recorded holdings of such paper by MFIs and central governments in the euro area. This was not correct, but the approach was justifiable if actual, unobserved, non-resident holdings were modest and stable in relation to (unobserved) resident holdings. In that case the approach would not exaggerate euro area money stock too much nor distort its rate of growth.

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[84] Throughout this chapter, "non-resident" means not resident in the euro area.

[85] When selling a bond under a repurchase agreement, the MFI retains the bond on its balance sheet and records a liability to the counterparty to match the funds received under the transaction. It is this liability which forms part of M3.

In 1999 however issues of marketable monetary instruments by German MFIs began to grow very rapidly. This may have been a reaction to the much less penal minimum reserve obligations in the euro area than the Deutsche Bundesbank's reserve requirements which they replaced; at the same time a reduced supply of government paper may have encouraged demand for high-quality bank issues. Balance of payments data indicated to the Bundesbank that much of this paper was taken up outside Germany, though their source could not distinguish between take-up elsewhere in the euro area and take-up outside the euro area. This evidence, though incomplete, raised concerns that the strong growth in M3 recorded at the time might be exaggerated. Another consideration was the reclassification in spring 2000 of some Irish financial institutions as MMFs, bringing their shares/units into M3. The liabilities of these newly classified MMFs were thought to be widely held outside the euro area (especially in the United Kingdom and the United States), disturbing the assumption hitherto that cross-border holdings of shares/units issued by euro area MMFs were predominantly within the euro area. Unlike most reclassifications, where a statistical adjustment at the time prevents distortion to growth rates, the reclassification of these Irish institutions might have had a lasting distortive effect on measured M3 growth because of the way their business was developing.

The question therefore arose of how to measure non-resident holdings of MMF shares/units and other marketable monetary instruments issued by euro area MFIs, and how to allow for them in compiling M3 levels and growth rates. It was not possible to obtain information directly from the non-resident holders. The sources would have to be the reporting MFIs themselves to the extent that they held information on holders of their paper, and settlement systems or custodians in the euro area, who might have records of transactions or custody holdings of euro area paper on behalf of non-residents. Balance of payments statistics might also help.

Different questions arose with MMFs (in respect of their shares/units) and with other MFIs (in respect of their issues of marketable monetary instruments). In several Member States, MMFs, or their management companies or trustees, maintained a register of holders of shares/units; these Member States included Ireland. Elsewhere the question could be tackled via custodians or (in Germany) from balance of payments sources. The ECB was sufficiently confident about non-resident holdings of MMF shares/units to begin adjusting for them in the April 2001 monetary statistics published in May 2001. The collection of information about non-resident holdings of MMF shares/units was subsequently incorporated in Regulation ECB/2002/8, an amendment to Regulation ECB/2001/13 concerning MFI balance sheets, as described in Chapter 32: very briefly, the approach depends on whether the shares/units are held on a register or not.

Tracking down non-resident holdings of monetary instruments issued by other MFIs in the euro area proved more difficult, mainly because the issuers were able to give less help. Investigations in 2000 by NCBs of holdings within their own countries of paper issued by German MFIs did not reveal very large increases in holdings, strengthening the suspicion of a large take-up outside the euro area. Nevertheless the ECB was not able to adjust the monetary statistics for these holdings until November 2001 (when the October data were released). New sources of information were needed. In the light of experience gained from the German case, the ECB embarked on a study, initially extending the coverage of Germany to the Netherlands and Ireland, to compare, security by security, information on issues of marketable monetary instruments supplied by national numbering agencies with data on the amounts held in accounts with international settlement systems or custodians and with their records concerning the residency of the account holders. The work suggested that non-residents of the euro area were much more likely to take up negotiable monetary instruments issued by euro area MFIs where these were denominated in foreign currency rather than in euro; and that most such paper was settled in the two large international settlement systems in the euro area. It also seemed that, at least for the short-term paper relevant here, their records were a good guide to the residency of the ultimate holders; this information could be checked with MFIs involved in the placement of the paper.

Since settlement institutions were not subject to ECB reporting requirements, the information from them was obtained on a voluntary basis. The outcome was agreements with security settlement systems for the provision of aggregated data, and monthly estimates of non-resident holdings, with a breakdown between euro and foreign currency-denominated items stretching back to January 1999. The estimates were obtained from a mixture of the sources described here, and upgraded memorandum items. The memorandum items (with high priority status) remain in the current version of the Guideline concerning money and banking statistics (ECB/2003/2) adopted in February 2003.

The introduction of the adjustments to the broad monetary aggregate in 2001 was not as smooth as it might have been. Reliable information on MMF shares/units was available by spring 2001. It was evident by then that the adjustments for money market paper and short-dated bonds would also be substantial, but there was no firm figure and there would not be one for some months. The ECB's initial preference was to avoid two adjustments to such an important statistic as M3, meanwhile referring to the matter in purely qualitative terms. The need to analyse monetary developments and explain policy actions in terms of the best data available, which took account of the adjustment for non-resident holdings of MMF shares and units, made this preference untenable. The ECB's revised intention, as trailed in a Box in the May 2001 Monthly Bulletin (*"Measurement issues related to the inclusion of negotiable instruments in euro area M3"*), was to retain the unadjusted series as the official M3 figures, while providing regular monthly information on the effects of non-residents' holdings of MMF shares/units as a memorandum item until a single full adjustment could be made later that year. In the event this approach was judged cumbersome and potentially confusing: instead, with effect from the late May monetary statistics release relating to April 2001 data, published M3 was adjusted for non-resident holdings of MMF paper, the adjustment reducing the 12-month growth rate by some 0.5 percentage point. The ECB warned that adjustment for non-resident holdings of money market paper and short-dated bonds might eventually reduce the 12-month measured growth rate by a further similar amount (in fact, by the autumn the second adjustment was even larger than this – see a further Box in the November 2001 Monthly Bulletin).[86] The approach, though awkward, eased the task of analysing and explaining the monetary statistics.

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[86] The effects of the adjustments were to reduce the level and growth rate of M3 (because non-resident holdings were increasing much faster than correctly measured resident holdings). The counterpart to the adjustments to M3 was larger, and faster growing, net external liabilities of the MFI sector. The overall consolidated MFI balance sheet was unaffected.

Annex

Holdings of shares/units issued by MMFs

Data required to be provided at monthly frequency

A. Domestic									
		Non-MFIs							
		General government			Other resident sectors				
MFIs	of which credit institutions subject to RRS, ECB and NCBs	Central government	Other general government	Total	Other financial inter-mediaries + financial auxilisaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)	MFIs
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)

Source: Regulation ECB/2002/8

B. Other participating Member States									C. Rest of the world	D. Not allocated
Non-MFIs										
	General government			Other resident sectors						
of which credit institutions subject to RRS, ECB and NCBs	Central government	Other general government	Total	Other financial inter-mediaries + financial auxilisaries (S. 123 + S. 124)	Insurance corporations and pension funds (S. 125)	Non-financial corporations (S. 11)	Households + non-profit institutions serving households (S. 14 + S. 15)			
(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)		(s)	(t)

Chapter 35

A monetary presentation of the balance of payments

The purpose for which monthly euro area balance of payments statistics are compiled. Nature and content of the monetary presentation. Difficulties to be overcome in achieving it.

One aim of the implementation package was to provide *"a monthly balance of payments of the single currency area showing the main items affecting monetary conditions and exchange markets"*.

Monetary and balance of payments statistics are compiled in very different ways. The main source of monetary statistics is the consolidated banking (MFI) sector balance sheet, including central banks. Money stock largely consists of selected liabilities of the MFI sector; its change in a month or quarter is the change in these balance sheet liabilities outstanding, after allowing for various adjustments described in Chapter 33. The balance of payments, by contrast, is the sum of transactions of residents of the euro area with non-residents of the euro area during a month or quarter. Thus while monetary growth is essentially the change in a stock of financial instruments, the balance of payments is a set of flows comprising transactions between euro area residents (including MFIs) and the rest of the world.

The flows making up the euro area balance of payments, and their evolution over time, are of considerable interest in themselves. They can however also be arranged so as to "explain" monetary developments (explain here is used in an accounting or statistical sense rather than a causal one). A quarterly monetary presentation of the balance of payments was published for the first time in the June 2003 Monthly Bulletin.

Balance of payments flows must over any period add up to zero. So the change in net external assets of MFIs, including central banks, must equal the aggregated net flow of all other items. However, external assets and external liabilities are items in the MFI balance sheet too. Therefore the change in net external assets in the consolidated MFI balance sheet (including the Eurosystem) must equal the total of other (non-MFI) flows in the balance of payments. These non-MFI balance of payments flows can of course be broken down into trade in goods and services, investment income flows, flows of direct and portfolio investment, etc.

The change in the net external assets of the MFI sector is a counterpart to broad money (M3). This can be seen if the consolidated MFI balance sheet is set out in the following simplified way:

Liabilities	Assets
M3	Credit to euro area residents
+ non-monetary liabilities to euro area residents	+ non-financial assets
+ capital and reserves	
+ all liabilities to non-residents	+ all claims on non-residents

So M3 = credit to euro area residents
+ (non-financial assets – non-monetary liabilities to euro area residents – capital and reserves)
+ (claims on non-residents – liabilities to non-residents)

where the claims on and liabilities to non-residents take various forms – loans, debt securities, shares and other equity, deposits, and official reserves (in the euro area, held entirely by the Eurosystem). With appropriate valuation adjustments, the relationship between levels of the above quantities (as shown) holds also for changes in them. This in turn means, because of the accounting identity in the balance of payments, that the last item – net external assets of MFIs, or rather changes ("transactions") in them – equates to the sum of trade in goods and services, cross-border income flows, current and capital transfers, and direct, portfolio and "other" flows in the financial account excluding the MFIs' own financial account transactions.

The ability to relate monetary and balance of payments developments in this way, even at a rather descriptive level in the sense that the analysis relies on accounting identities rather than behavioural relationships, shows what the implementation package meant by *"main items [of the balance of payments] affecting monetary conditions"*.

In practice, developing a monetary presentation of the balance of payments involved much more than rearranging balance sheet entries and items in the balance of payments. The change in net external assets in the consolidated MFI balance sheet did not even approximately correspond to the MFI component in "other" investment in the balance of payments, plus the change in the official reserves, for two main reasons. The first was that important changes in MFI external assets and liabilities were recorded indistinguishably in direct and portfolio investment in the balance of payments: to identify and split off the MFI element in these accounts required more information to be reported in the balance of payments statistics, which took time to obtain. After the MFI element on direct and portfolio account has been identified and allowed for, a more fundamental difference remains. MFI balance sheet statistics and MFI financial account transactions recorded in the balance of payments are different in that, in reporting the end-month balance sheet, MFIs value items on the balance sheet on that day at current prices and exchange rates, while in reporting their cross-border financial transactions, banks aggregate their business during the month at the prices and exchange rates at which it was done. This difference gives rise to discrepancies between the two sources of the kind discussed at length elsewhere in this document.

In principle, MFI own-account transactions in goods and services and in the income account should also be identified and split off in the monetary presentation of the balance of payments. For example, interest earned by MFIs on their holdings of bonds issued by non-residents of the euro area will probably be reflected in their net external assets (at least in principle, equally in the MFI balance sheet statistics and in MFI own-account balance of payments), probably with a counterpart balance sheet entry in capital and reserves. Since their receipts of interest from non-residents (and other current account transactions of MFIs with non-residents of the euro area) will have no direct effect on M3, the associated increase in MFIs' net external assets creates a discrepancy in the monetary presentation of the balance of payments because the increase in net external assets is not matched by any increase in M3. These transactions are in practice not split off because the effort to identify them would probably not be justified. This is one reason for modest discrepancies between columns 11 and 12 (with sign reversed) of the table forming the annex to this chapter.

Annex

Monetary presentation of the euro area balance of payments [1]

Current and capital accounts	Direct investment		Portfolio investment			Other investment		Financial derivatives	Errors and omissions	Total [5]	Memo item: transactions in the external counterpart of M3 [6]
	By resident units abroad (non-MFIs)	By non-resident units in the euro area [2]	Assets	Liabilities		Assets	Liabilities				
			Non-MFIs	Equity [3]	Debt instruments [4]	Non-MFIs	Non-MFIs				
1	2	3	4	5	6	7	8	9	10	11	12

(1) Inflows (+); outflows (-).
(2) Including all transactions of the non-MFI sector, and MFI sector transactions in equity capital and reinvested earnings.
(3) Excluding money market fund shares/units.
(4) Excluding debt securities with a maturity of up to two years and issued by euro area MFIs.
(5) Sum of columns 1 to 10; errors and omissions (column 10) are those shown in Table 8.1 (column 13) of the Monthly Bulletin; remaining differences (in absolute values) with column 12 are explained in a methodological note available on the statistics section of the ECB's website (www.ecb.int).
(6) Source: Monthly Bulletin, Table 2.4.6, column 9.

Source: ECB Monthly Bulletin, June 2003, Table 8.7

Chapter 36

General economic statistics

With exceptions (harmonised consumer prices being the most important), general economic statistics are the part of euro area statistics with the most obvious shortcomings at the start of Stage Three. The Monetary Committee/Economic and Financial Committee Working Group on Statistics; the Commission/ECB Action Plan. Preparation of new or revised Community legislation. Benchmarking against the United States. A "Europe first" approach; the Commission's Principal European Economic Indicators initiative.

General economic statistics (GES) comprise statistics on prices and costs, national accounts, the labour market, and output and demand generally. Much of the statistical information supporting the second pillar of the ECB's monetary policy strategy falls into this category. All central banks use information of this type to assess economic developments and prospects for inflation. In most countries such data are compiled by government statistics offices. The national data are combined to form European aggregates by Eurostat, for the European Union as a whole and for the euro area.

Chapter 15 in Part A described the initial requirements for data of this kind, as set out in the July 1996 implementation package. Progress towards meeting them was generally slow, despite enactment of relevant legislation (the ESA 95 Regulation, No 2223/96; the short-term statistics Regulation, No 1165/98). Chapter 15 also noted the setting up of a Monetary Committee statistics group to speed up progress in 1998; the first report of the group was adopted by ECOFIN Ministers in January 1999. A conspicuous and important exception to the slow progress was the work on the Harmonised Index of Consumer Prices. Within the framework of Council Regulation (EC) No 2494/95, a series of Council and Commission Regulations established the main features of harmonised consumer prices, and implementation proceeded in the Member States. Although work remained (and still remains) to be done, especially on quality adjustment and owner-occupied housing, the ECB adopted the HICP as its measure of price developments when finalising its monetary policy strategy in 1998. Chapter 15 also noted the unfortunate timing for the introduction of the ESA 95 in spring 1999, shortly after the start of Stage Three, chosen despite objections from the EMI.

The ECB kept up the pressure for better GES throughout the early years of Economic and Monetary Union. A succession of Monthly Bulletins, starting with a Box on *"Non-financial statistics supporting the analysis of euro area-wide economic developments"* in the first issue (January 1999) and an article entitled *"The role of short-term economic indicators in the analysis of price developments in the euro area"* in the April 1999 issue, stressed the importance of GES to the ECB, and shortcomings in them. Sections of quality and availability reports covering GES were circulated to government statistics offices through Eurostat's committee structure. In August 2000, the ECB published a restatement of requirements in this area in *"Requirements of the ECB in the field of general economic statistics"*. In the following month, ECOFIN Ministers endorsed an Action Plan prepared by the Commission and the ECB and reflecting the conclusions of

EFC[87] reports, which listed specific actions to be taken by each Member State to remedy the most important deficiencies in statistics at the European level. A thorough benchmarking exercise, in which the ECB participated, was conducted in 2000-01 to learn more about experience and practices in the United States. One outcome of the exercise was the principal European economic indicators initiative.

The existing legislation had two main shortcomings. Because it had not been prepared with monetary policy needs at European level in mind, the timetables for transmitting national data to Eurostat were often too slow for current policy analysis. Moreover, the Regulations contained derogations excusing some Member States from supplying some of the data for years ahead. Since these derogations related to different data items, Eurostat might have a complete or sufficient set of data for rather few variables. Thus European (including euro area) GES aggregates often appeared long after the reference period, and with many gaps, though with notable exceptions, particularly the HICP, which was prompt, comprehensive and reliable.

Following discussion in the EFC statistics group, the September 2000 Action Plan identified the areas most needing improvement. These were quarterly national accounts (with a targeted timeliness for the main aggregates of 70 days), quarterly public finance statistics (90 days), short-term business statistics (broadly, the area covered by Regulation No 1165/98 – mostly 45/60 days), external trade statistics (40 days), and labour market statistics (70/90 days for employment, 75 days for the labour cost index required under a further proposed Regulation). The aim was not necessarily provision of data by all Member States, but an 80% coverage which would enable Eurostat to compile reliable European-level aggregates. This itself was a departure from the usual legal approach in the Community, which, subject to derogations, obliges all Member States to supply the same data to a common timetable. The EFC's 5th progress report (January 2003) noted that progress had been made but that many of the objectives set by the ECOFIN Council in autumn 2000 were still not met. The effort was then reinforced by a joint report of the Council and the Commission, *"Eurozone statistics and indicators"* (February 2003), which drew on a November 2002 Communication of the Commission to the European Parliament and the Council entitled *"Towards improved methodologies for eurozone statistics and indicators"*. The Commission document presented a list of priority sets of monthly and quarterly indicators (principal European economic indicators), with the intention of improving their timeliness and quality by 2005 – see the annex to this chapter. In this initiative the Commission intends to follow the "Europe-first" approach, which reverses the traditional procedure of summing complete national contributions to form a European aggregate. Instead, sufficient data might be collected in the first place to provide a reliable European-level aggregate compiled directly; further data would be collected to a slower timetable to enable a full set of national aggregates to be compiled, with a revision, if necessary, to the European-level aggregate. Thus reliable euro area or EU aggregates might be published before sufficiently detailed or comprehensive data were available for reliable national breakdowns, recognising, at least for a number of key indicators, that European-level policy needs must drive the publication timetable.

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[87] The Monetary Committee was replaced by the Economic and Financial Committee at the start of Stage Three (Treaty, Article 114 (2)).

The ECB followed up its August 2000 restatement of requirements for GES and an assessment in the April 2001 Monthly Bulletin (*"Assessment of general economic statistics in the euro area"*) with a review article in April 2003 followed by a Box in the September 2003 Monthly Bulletin, which, broadly speaking, represent the position at the end of the period covered by this book. The main points are listed below.

HICP

Further improvement had been made in timeliness, coverage and reliability, with a flash estimate available around the end of the reference month since autumn 2001. Work was continuing on quality adjustment (meaning allowance for changes in the quality of goods and services whose prices contribute to the index). Data on residential property prices at the time the properties are acquired by the household sector, on the so-called net acquisitions basis, were being developed with a view, depending on experience with them, to incorporation in the HICP.[88]

National accounts

Timeliness of quarterly accounts had improved, with some aggregates published after 70 days. Reliability of euro area aggregates had also improved, thanks to wider coverage. A flash estimate for euro area GDP (a single figure) 45 days after the reference quarter was imminent. Also imminent were quarterly government non-financial aggregates after 90 days. However, results still became available more slowly than in the United Kingdom and the United States, and quarterly indicators were still lacking on household disposable income and saving and on corporate investment (partly to be remedied by the development of sectoral accounts, as described in Chapter 31), as well as on hours worked. Euro area exports and imports in the national accounts still included cross-border trade within the euro area, because the ESA 95 was designed for national income and expenditure accounts, where the distinction within cross-border trade between business within the euro area and business outside it is not relevant, and not for compiling euro area aggregates.[89] Work continued on standard seasonal and working-day adjustments.

Short-term business statistics

High-frequency business indicators are a valuable supplement to quarterly national accounts. Despite Regulation No 1165/98, euro area short-term statistics are not based on fully comparable methods. The April 2003 article and the September 2003 Box noted improvements in statistics on industrial production, producer prices, employment, wages and salaries and retail trade. By contrast, statistics on new orders, construction activity

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[88] Although spending on residential property is part of gross capital formation in the ESA 95, and not part of consumption expenditure.

[89] The same applies to the short-term statistics Regulation. For many economic series this is not important. However, it does matter for series like export orders, export and import prices and trade statistics generally.

and the service sector[90] were still lacking, though early improvement was likely (indeed, Eurostat published statistics on new orders in manufacturing for the euro area in December 2003). Lack of data or serious deficiencies were likely to persist in the area of import prices (as opposed to unit values),[91] producer prices for construction and services, and residential property prices (but see the initiative in the context of the HICP).[92]

Labour market statistics

Quarterly employment data, and quarterly estimates of hours worked in industry (though not yet in other sectors) were now available, together with fairly prompt (30-35 days) harmonised monthly unemployment data. A quarterly labour cost index was now available after 90 days (the aim being 70 days with better coverage of the services sector under a new Regulation). Nevertheless, labour market statistics for the euro area remain an important weakness.

External trade statistics

The timeliness of external trade data had improved to 50-53 days. Price (meaning unit value) and volume data, after a hiatus in 2002, were once again available four to six weeks later than the value numbers.

Surveys

The European Commission's monthly surveys of manufacturing, construction, retail trade and consumers are valuable qualitative indicators pointing to prospects for activity and prices. The April 2003 article welcomed in particular wider coverage of service activities introduced in 2001 as a partial substitute for quantitative data on service activities.

The April 2003 article indicated the most important areas for further improvement or new development. It stressed the value of the "Europe-first" approach, and the importance of national accounts as a framework for euro area statistics (see further in Chapter 31). The article also suggested, in keeping with the principal European economic indicators initiative, more focus on monthly and quarterly statistics for policy use, and less emphasis on very detailed annual data designed mainly for structural purposes. More stress might be placed on comparable EU aggregates at the expense of non-comparable national statistics for national purposes. A European Parliament and Council Regulation amending Regulation No 1165/98 was in preparation at the end of the period covered by this book.

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[90] Service activities contribute some 70% of GDP in the euro area. Although they are covered in the national accounts, HICP and labour market statistics, there is much less high frequency and/or detailed information about them than there is about industry, despite their greater quantitative importance.

[91] Despite their name, unit value indices do not measure the price of a basket of standard products, but instead average prices of product categories. They are thus affected by changes in the composition of the product categories.

[92] Like import prices, residential property prices are not required under Regulation No 1165/98. The ECB has published studies of their broad development in the euro area, but the available national data are hard to compare and provide poor material for aggregation for reasons explained in the December 2003 Monthly Bulletin (Box 5, "*Residential property price developments in the euro area*").

Annex

List of Principal European Economic Indicators, with intended frequency and timeliness (in calendar days)

Set	Indicator	Periodicity	EU Delay Target	EU Delay Actual
Set 1: Consumer Price Indicators				
1.1.	Harmonised Consumer Price Index: MUICP flash estimate	monthly	0	2
1.2.	Harmonised Consumer Price Index: actual indices	monthly	17	17
Set 2: National Accounts Indicators				
2.1.	Quarterly National Accounts: First GDP estimate	quarterly	45	NA
2.2.	Quarterly National Accounts: First GDP release with more breakdowns	quarterly	60	70/120
2.3.	Quarterly National Accounts: Household and Company Accounts	quarterly	90	NA
2.4.	Quarterly National Accounts: Government Finance Statistics	quarterly	90	100
Set 3: Business Indicators				
3.1.	Industrial production index	monthly	40	48
3.2.	Industrial output price index for domestic markets	monthly	35	35
3.3.	Industrial new orders index	monthly	40/50	Preliminary data
3.4.	Industrial import price index	monthly	45	NA
3.5.	Production in construction	monthly/ quarterly	45	75
3.6.	Turnover index for retail trade and repair	monthly	30	60
3.7.	Turnover index for other services	quarterly	60	Partial data
3.8.	Corporate output price index for services	quarterly	60	NA
Set 4: Labour Market Indicators				
4.1.	Unemployment rate	monthly	30	30
4.2.	Job vacancy rate	quarterly	45	NA
4.3.	Employment	quarterly	45	70/75
4.4.	Labour cost index	quarterly	70	90
Set 5: Foreign Trade Indicators				
5.1.	External trade balance: intra and extra for MU and EU	monthly	45	50

NA : not available (not published yet at EU level)

Source: Communication of the Commission to the European Parliament and the Council *'Towards improved methodologies for eurozone statistics and indicators'*, November 2002

Statistics to meet new analytical requirements in the ECB

Chapter 37

Macro-prudential and structural banking indicators

Macro-prudential and structural banking indicators meet policy applications which were not specifically accommodated in the initial provision of statistics. How data to meet them would (ideally) differ from data developed for monetary policy purposes. Reliance so far on existing data (adapted where possible) from a variety of sources. Parallel developments in the IMF. Prospect of a legal instrument when data requirements settle.

Macro-prudential indicators

Article 105(5) of the Treaty requires the ECB to "*contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.*" The same words occur in Article 3 of the Statute.

As noted elsewhere, and as required by the WGS's mandate from the Committee of Governors, the ECB's statistical requirements for the start of Stage Three as set out in the July 1996 implementation package were almost exclusively concerned with meeting the essential needs of monetary policy. There are coverage and definitional differences between the data required by the implementation package and subsequent legislation, and data ideally suited to supervisory and financial stability uses. In monetary/economic statistics and financial accounts, strict application of residency and sectorisation is important. The MFI statistics accordingly cover the business of all banking offices located in the euro area, and exclude the business of all banking offices located outside the euro area. They therefore include the business of euro area branches of foreign banks (banks with headquarters outside the euro area), and exclude the business of foreign branches of euro area banks. They also exclude the business of financial subsidiaries of euro area banks which are not themselves MFIs. The focus of supervisory/financial stability interest is the banking institution, comprising all its branches, wherever located, and for some purposes including the business of its financial subsidiaries which are not themselves MFIs. Moreover, the MFI statistics analyse counterparties by economic sector, following the ESA 95; only in the broadest sense do they reveal concentrations of risk. Within the MFI sector, supervisory/financial stability interest is focused on credit institutions, whereas monetary/economic statistics and financial accounts treat the sector as one, except, as noted elsewhere, for purposes of minimum reserves. Approaches to maturity, instrument breakdown and consolidation also differ.

The ECB does not engage in prudential supervision of individual institutions, and does not have the data which would enable it to do so. In "*contributing to the smooth conduct of policies*", however, the ECB has used a wide range of statistics relating to financial stability, though designed for other purposes, and takes a close interest in their further development. The Banking Supervision Committee and its predecessor, the Banking Supervisory Sub-Committee, have been consulted about statistical preparations for Economic and Monetary Union and further enhancements since the work began in 1992.

The BSC first requested a range of data for macro-prudential analysis in November 1999, to be drawn from the MFI statistics, other sources available to the ECB and, for profit and loss and solvency data, from supervisory sources. National data and EU and euro area aggregates would all be relevant. No extra data would be requested for the planned pilot study. For future macro-prudential analysis, data relating to credit institutions, rather than to the whole MFI sector, would be sought where a material difference between the two exists (later interpreted to mean a lasting difference between the two national aggregated balance sheets exceeding EUR 5 billion, reflected in addition in two or more items on either the asset or the liability side of the balance sheet). In the euro area, only Germany, Greece, Spain, France, Ireland, Italy and Luxembourg met both these criteria and are currently requested to submit quarterly data for credit institutions only. The data consist of main balance sheet items (stocks and flows), with sectoral and currency breakdowns.

The BSC also requested interest rate data to calculate margins on various types of business. Despite their imperfections, the retail bank interest rates were the source of this information. Macro-prudential data on household and non-financial corporations' debt, assets and debt servicing ratios came from ESA 95 financial accounts and income and expenditure accounts. The macro-prudential indicators (MPIs) included some national economic data; supervisory data came from national authorities or the Groupe de Contact in Basel.

The requirement for data relating to credit institutions (in practice relevant only in some Member States) subsequently formed part of Guideline ECB/2003/2 (Annex V).

The BSC's interest coincided with an initiative in the IMF to develop MPI data for possible inclusion in the IMF's Special Data Dissemination Standard. The IMF has embarked on a programme of financial sector stability assessments of individual member countries. The IMF is developing a compilation guide for financial soundness indicators (as they now call them) which will stop short of full harmonisation; since the guide will however depart in some respects from other statistical manuals, there are implications for statistical standards. An STC paper in December 2002 recommended that the ECB should continue with the current eclectic approach to MPIs, taking data from existing sources without further recourse to reporting agents, meanwhile paying close attention to the IMF's work in the field. Once users' long-term data requirements have been established, formalising MPIs, perhaps with a legal instrument, might be considered.

Although the BSC and IMF initiatives are separate, there is a similarity between the two sets of MPI data. In December 2003 the STC concluded that 12 of the IMF's 15 "core" indicators, together with 15 of their 26 "encouraged" indicators, were broadly matched by ECB indicators. The STC suggested a programme of limited harmonisation to improve the quality of financial stability data, so far as possible in line with the IMF's developing framework.

Structural banking indicators

Macro-prudential indicators are measures of financial soundness (at the level of the banking system) or indicators of macroeconomic or financial developments which may influence it. A separate though related subject is the structure of the banking system.

Structural developments in banking are particularly interesting following formation of the Single Market and Economic and Monetary Union. They may also carry implications for financial soundness. As in the case of financial stability measures, no data requirements for measuring structural developments were proposed in the implementation package, though the MFI balance sheet and retail interest rate data developed for other purposes provided relevant information.

With the experience of a pilot report on structural developments in the European banking industry in mid-2001, the BSC sought the help of the STC in compiling a core set of 29 structural indicators. These are shown broken down by data source in the table forming Annex 1 to this chapter. The request was for end-year data on amounts outstanding, or for annual flows, and for a run of years to enable structural developments to be identified: in practice harmonised data, taken from the ECB's MFI balance sheet source, started only in 1997 (seven items). A further five indicators relating to non-monetary financial institutions and to mergers and acquisitions involving EU credit institutions were available in the ECB from other sources. Ten more indicators relating to individual institutions or groups of institutions could be compiled by NCBs from individual MFI balance sheets and/or from information contained in the MFI list. Four variables were available from Eurostat's business statistics or, in two cases, from ECB work on the balance sheets of insurance corporations and pension funds, undertaken for the purpose of MUFAs. The last three variables (concerning “virtual” banks and cash dispensers) could be derived from supervisory or payment systems sources.

The STC (and the BSC) were aware that data from an assortment of sources, none of them developed with the BSC's precise purposes in mind, would contain inconsistencies and other shortcomings. Particularly important would be the differences between the “host” country principle of coverage in monetary statistics and financial accounts (data cover the banks or other financial institutions located in the national territory, euro area or European Union, including branches of banks with headquarters outside the area) and the “home” country principle used by financial supervisors (data cover banks or other financial institutions incorporated in the national territory, euro area or European Union and their branches located elsewhere). The BSC's wish to measure concentration (the Herfindahl index and the share of the five largest credit institutions in total assets) on a banking group basis, with institutions belonging to the same group counted as one, presented difficulties of consolidation in using the MFI balance sheet statistics. Where harmonised data available in the ECB could be used, there might be difficulties in providing equivalent information for non-participating Member States. Where data came from Eurostat's structural business statistics, timeliness and consistency issues would arise, though Eurostat was working to improve both.

As in the case of the macro-prudential indicators, the STC reviewed the structural indicators in December 2002 and again a year later. Evident problems remained with consistency, the lack of back data, and data relating to non-participating Member States. Guidance notes for compiling the data provided by the NCBs were included in the new version of the money and banking statistics Guideline (Annex VI of ECB/2003/2 adopted in February 2003).

Annex 1

Structural indicators broken down by category of data source

No	Source of data	No of indicators	Description
1	ECB (money and banking statistics); SDC Platinum™ (marked with*)	12	1. Number of credit institutions (CIs) 4. Number of domestic mergers and acquisitions (M and A) involving CIs* 7. Total assets of CIs 8. Total loans of CIs to non-CIs 9. Total deposits of CIs from non-Cis 11. Gross issues of long-term debt securities by non-financial companies 12. Gross issues of short-term debt securities by non-financial companies 13. Market value of listed shares 14. Total assets of securities and derivatives dealers 16. Total assets under management by investment funds 22. Number of European Economic Area (EEA) country M and A between CIs* 27. Number of third country M and A between CIs*
2	NCBs (money and banking statistics areas) (some items are similar or identical to data provided to Eurostat or for MUFAs)	14	2. Number of local units (‘branches’) of CIs 3. Number of employees of CIs 5. Share of the 5 largest CIs in total assets 6. Herfindahl index for CIs' total assets 15. Total investments of insurance companies 17. Total assets under management by pension funds 18. Number of branches of CIs from EEA countries 19. Total assets of branches of CIs from EEA countries 20. Number of subsidiaries of CIs from EEA countries 21. Total assets of subsidiaries of CIs from EEA countries 23. Number of branches of CIs from third countries 24. Total assets of branches of CIs from third countries 25. Number of subsidiaries of CIs from third countries 26. Total assets of subsidiaries of CIs from third countries
3	Other sources (unharmonised data)	3	28. Number of ‘virtual’ banks 29. Total assets of ‘virtual’ banks 30. Total number of automated teller machines

Source: Guideline ECB/2003/2, Annex VI

Annex 2

Financial services and the ECB's money and banking statistics

Business statistics relating to credit institutions are relevant to the ECB's interest in structural developments in the banking industry. Eurostat, not the ECB, compiles statistics of services activities. European Parliament and Council Regulation (EC) No 2056/2002 (Annex 6 *"A detailed module for structural statistics on credit institutions")* sets out the data items which Member States are to report annually within ten months as a contribution to financial services statistics.

As an important part of the financial services industry, banking institutions contribute a substantial share of national income and output as recorded in quarterly and annual national accounts. Measuring the contribution of banking institutions (and other financial intermediaries) is not however straightforward, because banking services are often charged for not by explicit fees and commissions, but implicitly in interest rates. The ESA 95 Regulation (No 2223/96) remitted the question of indirect measurement of financial intermediation services for further study. The outcome was Council Regulation (EC) No 448/98, which completed and amended No 2223/96 with respect to the allocation of financial intermediation services indirectly measured, with a further Commission Regulation (No 1889/2002) setting out a methodology agreed after a trial period. The ECB's MFI balance sheet and interest rate statistics reported under Regulations ECB/2001/13 and 18 do not resolve the measurement difficulties so far as banking institutions are concerned but, with their sectoral and instrument detail, do provide relevant information.

Chapter 38

International role of the euro

Another analytical/policy interest not specifically provided for in preparations for Economic and Monetary Union. Use (despite limitations) of existing data; how the information might be extended.

The ECB neither promotes nor resists an international role for the euro. International use may however be influenced by ECB policies pursued for other ends; conversely, a growing international use of the euro may have consequences for ECB policies, notably through the exchange rate with its implications for price stability, and also for income and resources available for use in the euro area. International use of the euro may also affect the interpretation of statistics and key policy analysis, e.g. concerning the stability of demand for money. For various reasons, therefore, the international role of the euro is a matter of close interest to the ECB, and also to other EU institutions.

International use of the euro means its use by non-residents of the euro area.[93] They may use the euro as a means of payment, issue financial instruments denominated in euro or hold them as investments (including in exchange reserves), or use the euro to express prices or fix amounts in contracts. These uses are separate: thus it is possible to invoice in euro but settle transactions in some other currency, or to issue euro-denominated bonds but service them using dollars. Markets may use the euro as a vehicle currency in foreign exchange transactions.[94]

MFI balance sheet data provide much information about the international role of the euro. They show euro-denominated deposits held by non-residents of the euro area with MFIs in the euro area, and the MFIs' euro-denominated claims on non-residents of the euro area.[95] The BIS international banking statistics show euro-denominated deposits of non-residents of the euro area held with banks outside the euro area (and so not contributing to the ECB's MFI statistics), and such non-resident banks' lending in euro to non-residents of the euro area. The ECB's securities issues statistics (which include BIS data on international bond market activity) show euro-denominated issues by non-residents of the euro area, whether the issue is made in the euro area or outside, together with redemptions, net issues and amounts outstanding.[96]

[93] The BIS considers a debt security issued by a euro area resident to be "international" if it is targeted at international investors, as evidenced by for example the inclusion of non-euro area institutions in the underwriting syndicate. This broader definition is not used here.

[94] Thus a purchase of currency A with currency B may be executed as two transactions, a purchase of euro against B and a simultaneous sale of the euro to buy A. The dollar is commonly used in this way.

[95] Including euro-denominated claims on non-residents held by the Eurosystem. Such claims are not part of the Eurosystem's reserve assets, by decision (see Chapter 11 in Part A).

[96] Holdings of euro-denominated paper by non-residents of the euro area, regardless of the issuer, are not however currently available, except through the efforts to identify non-resident holdings of monetary instruments issued by euro area MFIs described in Chapters 32 and 34. Information on holdings of marketable securities, relevant to a range of statistical work, is an intended outcome of the CSDB project described in Chapter 40.

In other respects, however, information about the international role of the euro is lacking. Only limited information is available about banknote circulation outside the euro area: it is based on shipments of banknotes to distributors, but cannot take account of notes exported, or repatriated, in the wallets of individuals or through commercial operations. The use of a currency for invoicing purposes, or to fix amounts in contracts, is usually known only from survey information about commercial practice. The purpose of balance of payments statistics is to record the amount and nature of cross-border transactions, not the currency in which they are invoiced or in which settlement is made. Nevertheless, some Member States that compile balance of payments statistics from bank payments sources can record the currency of settlement. All these sources are however incomplete and fragmentary. The main gaps in knowledge about international use of the euro concern the use of euro banknotes (and coin, though amounts there are likely to be trivial) outside the euro area; the practice of invoicing in euro goods, services and other items exchanged outside the euro area[97] between non-residents of the euro area, or between a resident and a non-resident; and the use of the euro to settle such transactions or indeed to settle transactions invoiced in other currencies.

The ECB first investigated the international use of the euro shortly after the start of Stage Three, with an article on *"The international role of the euro"* in the August 1999 Monthly Bulletin. This article set out various conceptual issues and presented the limited array of statistics then available from MFI balance sheet statistics and the BIS international capital market data.[98]

A review of the international role of the euro was prepared in 2001, using the best statistical information available. The 2001 review noted a need to fill gaps in the existing information; a further consideration was that the gaps might widen if, as seemed likely, some Member States moved away from bank payments sources for compiling balance of payments statistics, as described in the next chapter. However, like other statistical changes, new or replacement sources of information would have to be justified by a merits and costs exercise. NCBs continue to supply relevant bank settlements data, where available, to the ECB. Meanwhile, ECB staff have investigated alternative or complementary sources of information on transactions with non-residents of the euro area in goods, services and debt securities broken down by currency, while the STC has considered how such information might be provided from new collection arrangements replacing bank payments-based systems.

The provisional conclusion was that introducing invoicing data in replacement balance of payments collection systems would probably not be practical. The most promising approach was a periodic study of invoicing practice using a sample survey. Further information from users indicated a wish for quarterly information, separately for goods and services. Only the dollar would need to be picked out among non-euro currencies. On the international use of the euro as an investment currency, the CSDB, once operational, would probably provide all the information needed. Thus from 2005, starting with positions for end-2004, transactions and positions in securities (including money market instruments) recorded in euro area b.o.p and i.i.p. statistics should include

[97] In addition to invoicing items commonly bought and sold, this could include the practice of fixing wages and salaries in euro (even if they are paid in national currency), using the euro in indexation agreements, and indeed using it in contracts of all kinds. These uses are "international" where non-residents of the euro area are party to them.

[98] For data before January 1999, "euro" meant ECU or the former euro area national currencies.

a euro/non-euro split. In 2005-06 Member States will attempt to close gaps in the data relating to the use of the euro as an invoicing currency. For the longer term, the STC will investigate whether a currency of invoicing requirement might in due course be added to the forthcoming European Parliament and Council Regulation on balance of payments statistics, with some commodity detail for exports and imports of goods.

Meanwhile, in May 2003 the European Parliament adopted a resolution encouraging the ECB to monitor the international use of the euro, and specifically the use of euro banknotes and coin outside the euro area, which the Parliament believed could affect the value of the euro and distort the measured growth rate of monetary aggregates.

Strengthening the infrastructure

Chapter 39

Balance of payments data collection

The nature and extent of ECB interest in methods of data collection. The typical approach to balance of payments data collection before the start of Stage Three. Changing business practices, formation of Economic and Monetary Union and the Single Market, new statistical needs and standards, all sources of pressure on the prevailing approach. Efforts to encourage development of consistent approaches while maintaining the quality of statistics.

The subject of balance of payments collection systems – the arrangements for gathering data on transactions between residents and non-residents - has remained an issue almost throughout the 12 years covered by this document.

The EMI's concern in preparing for Economic and Monetary Union was that the ECB should have the data needed to satisfy its policy needs, with sufficient quality in terms of comparability across the euro area, institutional and instrument coverage, timeliness and frequency. After some discussion of the issue, the EMI was not much concerned with how the data were collected, leaving it to the national authorities to choose the appropriate means. This approach seemed consistent with the Statute ("*The national central banks shall carry out, to the extent possible, [these] tasks*" (Article 5.2); "*To the extent deemed possible and appropriate…the ECB shall have recourse to the national central banks to carry out the operations which form part of the tasks of the ESCB*" (Article 12.1)). It was also a practical necessity, given the amount of preparation to be carried out in a short time and the difficulty and expense of changing national collection systems.

The ECB's main interest is in reliable and timely balance of payments statistics for the euro area as a whole. The ECB has little interest in the balance of payments of individual countries in the euro area, except so far as they contribute to the euro area aggregate. The ECB monitors the balance of payments of EU Member States outside the euro area, but not the balance of payments of the European Union in total. National balance of payments statistics of countries in the euro area do however retain some national importance, and Member States continue to compile them, for their own purposes and to meet obligations under the ESA 95 (which requires statistics on a national basis) and the IMF Articles. There is also a fourth resource (Community budget) angle, and the European Commission has certain other interests in national and European-level balance of payments statistics.

So far as the ECB is concerned, national data collection systems in the euro area must capture transactions between residents of the Member State concerned and non-residents of the euro area. It does not matter to the ECB whether or not they record cross-border transactions within the euro area.[99] Beyond that, the ECB has not been

[99] With the exception of portfolio investment liabilities and associated income flows, where cross-border flows within the euro area are an ingredient used in compiling the euro area aggregates.

prescriptive about collection systems, sharing the EMI's belief that a variety of arrangements can produce results which meet its needs. ECB statisticians and Eurostat have however encouraged a consistent evolution of national systems in changing circumstances, and have responded to developments which would put collection systems under severe short-term strain.

In the early 1990s, most EU Member States collected data on cross-border transactions from domestic banking records of payments and receipts, perhaps with some (low) threshold below which amounts need not be reported, or could be reported in aggregate. This approach worked well while most entities with cross-border transactions settled them through domestic banks; while they settled them singly, or at least settled amounts relating to the same balance of payments category; and while settlements were a good approximation to the statistical requirements in this area. Bank settlements were a quick and apparently reliable source, able to provide a breakdown by type of transaction from information provided by the customer, and also information on the location of the non-resident counterparty, or at least on the source or destination of the funds. NCBs collected the data as part of their wider statistical collection from banks. Government statistics offices drew on the balance of payments aggregates compiled by NCBs in preparing the national accounts; they or some other agency usually also collected separately data on external trade and perhaps on some other external transactions. The bank settlements source, often a survival from exchange control, satisfied the central banks' need for timely, high frequency data well-suited to policy interest in influences on the exchange rate and monetary/domestic liquidity conditions.

The United Kingdom and Ireland had a different approach.[100] The only balance of payments data which they took from banks related to the banks' own-account transactions. For other transactions they relied principally on surveys addressed to the financial and non-financial companies and organisations active in cross-border business. Although trade statistics, changes in the banks' external positions and some other items were available monthly, they compiled a full balance of payments account only quarterly.

There were intermediate arrangements, of which the French "déclarations directes" were the most important. Here the most internationally-active companies (and not their banks) reported cross-border payments and receipts each month. There were arrangements to prevent double counting.

The United Kingdom and Ireland strongly resisted any pressure to change to a bank settlements system. With some misgivings – it was not clear whether their survey systems would be able to provide timely monthly data or, in Economic and Monetary Union, the necessary distinction between cross-border business within the euro area and business with non-residents of the euro area – statisticians accepted that the task was to achieve enough comparability and consistency in the output of these different systems for meaningful aggregation. The implementation package has much to say about harmonised results, but does not mention a harmonised collection system.

By the start of Economic and Monetary Union, the bank settlements approach was coming under strain.[101] The approach is vulnerable to the use of bank accounts abroad to settle transactions – an apparently growing practice. In addition, businesses were

[100] Finland and Sweden, not members of the European Union at that time, also made use of surveys.

[101] Though it might be noted that Ireland was finding it difficult to provide monthly data to the ECB. How far this was attributable to reliance on surveys is not clear; Finland did not encounter any such difficulty.

tending to pool payments and make a single net settlement, perhaps through an office located abroad. Even if a domestic bank effected the settlement, it could not in such cases provide necessary detail on the underlying transactions. Moreover, formation of the euro area, following the implementation of the Single Market, led to questioning of the need to provide information for balance of payments purposes on every cross-border transaction. Pressure grew, not only from the banking community but also from parts of the European Commission, for steps to reduce the cost of cross-border transfers within the European Union, and in particular to relieve banks of the requirement to report retail cross-border transactions. Finally, statistical developments themselves were a source of strain for bank settlements reporting, in the sense that the emphasis switched from payments to transactions on an economic basis, implying recording of items involving no simultaneous payment or no payment at all. It was also evident that bank settlements reporting could not handle outstanding stock data, as was required for the ECB's international investment position and euro area financial accounts, and also under the ESA 95. Cutting across these considerations in early 2000 was a wish expressed by some multinational companies for balance of payments reporting to be reviewed across the European Union in the hope that requirements might be simplified and made standard.

Some Member States spontaneously began to modify their collection systems, moving to greater or exclusive use of surveys and in some cases increasing the role of the government statistics office in balance of payments statistics. With close involvement of the ECB and all NCBs, the CMFB devoted much attention to the matter. It held meetings with the European Committee of Banking Standards, the group in the banking community most interested in the reporting burden on retail payments, eventually proposing a limit of EUR 12,500, below which cross-border transfers would be exempt from reporting from January 2001.[102] In 1999, the CMFB prepared a "vision paper" on needs for balance of payments statistics some seven years ahead. On collection systems, the paper avoided being prescriptive, concluding that: "*While there is not the will to go for a common collection system in the immediate future, systems should nevertheless be encouraged to develop in a way that ensures consistent outputs over a period of years, reflecting the differing features of data at different frequencies. … Such an approach would help in the drive towards coherence … and could lead to some gains in efficiency in Member States' collection systems.*" Using the CMFB umbrella, ECB statisticians and Eurostat organised several workshops and thematic meetings on balance of payments collection systems in 1999-2001. Under the threat of a much increased threshold of EUR 50,000, below which cross-border transactions in euro within the European Union would be exempt from any balance of payments reporting obligation,[103] and with the

[102] The WGS had first discussed the threshold issue in January 1995, in connection with a draft (EU) Council Directive on cross-border payments dated November 1994. The draft recommended a threshold of ECU 10,000 below which no payments would be recorded.

[103] The threat receded. A EUR 50,000 threshold was contained in a draft EU Regulation on cross-border payments, originally to take effect in 2002. Protests from the ECB (in Opinion CON/2001/34) and Eurostat secured a delay to 2006. The provision was later struck out of the draft during discussion in the Council, in favour of a commitment to review the issue in 2004. Meanwhile, the threshold remains EUR 12,500, as agreed earlier – high enough to relieve the bulk of retail payments and cause some difficulty to bank settlements-based statistics, especially for services, transfers and some other current account items, but low enough to avoid severe damage to b.o.p. statistics. The ECB and Eurostat were not opposed to a EUR 50,000 threshold as such, but sought a breathing space for alternative data collections to be introduced in the Member States affected, which was expected to take up to five years.

CMFB committed to report to the EFC in July 2001 on the likely direction of change in balance of payments collection systems, statisticians developed a matrix indicating what form of data collection would probably be most appropriate for each main item in the balance of payments in the new circumstances. In its report to the EFC, the CMFB explained that the outcome was likely to be the use of a combination of sources, depending in part on national circumstances. These would include the division of responsibility between the NCB and the respective national statistical institute, which might increasingly come to resemble that between the ECB and the Commission at the European level. The importance of a particular item in cross-border flows or positions and its relevance to policy might affect how far Member States were pressed to follow recommended best practice in data collection, or even to adopt a harmonised approach. Thus, for example, data on services might be left to national discretion, while, for reasons suggested in Chapters 29, 34 and 40, collection of data on direct and portfolio investment followed agreed standard procedures. A probable outcome would be a shift of cost from banks to other enterprises; limited evidence from a few Member States indicated that total costs of providing statistics might fall. Another effect would probably be more involvement by national statistical institutes in collecting and compiling balance of payments statistics, since they rather than NCBs tend to collect from non-banks, and it may be efficient to link this data collection with others. The CMFB explained that there might be a separate common European procedure for data reporting by multinationals; this possibility was still under discussion at the end of 2003. The matrix, drawn from material supporting the CMFB report to the EFC in 2001, is set out below:

<table>
<tr><td>Sectors/segments of the statistical population</td><td colspan="2">Enterprises
(incl. MFIs on own business)</td><td>Government</td><td>Households</td></tr>
<tr><td>B.o.p./i.i.p. items</td><td>“large” multi-national</td><td>Small & medium-size enterprises</td><td></td><td></td></tr>
<tr><td>Goods</td><td colspan="4">Customs documentation</td></tr>
<tr><td>Services</td><td>DR</td><td rowspan="7">Quarterly/annual surveys and/or company or bank settlements data and/or administrative sources</td><td>DR</td><td>to be defined</td></tr>
<tr><td>-travel</td><td>-</td><td></td><td>Surveys</td></tr>
<tr><td>Income</td><td></td><td></td><td></td></tr>
<tr><td>-compensation of employees</td><td></td><td></td><td></td></tr>
<tr><td>-investment income</td><td>DR</td><td>DR</td><td>Derived from stocks</td></tr>
<tr><td>Current and capital transfers</td><td>DR</td><td>DR</td><td>Administrative sources</td></tr>
<tr><td>Direct investment</td><td>DR</td><td>DR</td><td>-</td></tr>
<tr><td>Portfolio investment</td><td>DR</td><td>Under investigation</td><td>DR</td><td>Under investigation</td></tr>
<tr><td>Other investment</td><td>DR</td><td>DR (accounts abroad) or surveys</td><td>DR</td><td>to be defined</td></tr>
</table>

DR = Direct reporting, meaning reporting by the enterprise or organisation undertaking the cross-border transaction or holding the cross-border position.

In parallel, an STC task force was reviewing portfolio investment collection systems. Their final report, published in June 2002, envisaged a variant of the matrix approach. Starting from an arrangement in which, in most euro area Member States,[104] portfolio investment data were compiled from bank settlements data provided by banks on behalf of their customers, the task force noted three possible sources of data:

- settlement-based reporting by domestic banks for their own transactions in securities and transactions executed on behalf of clients;
- direct reporting by domestic issuers of securities and domestic investors;
- indirect reporting by custodians or other intermediaries (e.g. asset managers, brokers or dealers).

As suggested by the variety of approaches chosen recently, the task force concluded that no single approach could be recommended, although it was clear that MFIs should at least report their own business ("direct" approach), and that households could in practice be covered only by one of the indirect approaches. The multinationals initiative, if it covered portfolio investment, would clearly be a direct approach, but it need not prevent the use of one of the indirect approaches to cover other businesses if that suited the circumstances. The task force then considered whether reporting should be aggregate, or security by security.[105] They concluded that security-by-security reporting was much to be preferred (in combination with the CSDB, which was by then approaching the implementation stage). It was desirable to report both stocks and flows, though one solution not requiring reporting of flows (reporting monthly stocks only and deriving flows from them, provided the stocks were reported on a security-by-security basis, so that accurate valuation adjustments could be made using the CSDB) was considered good. The task force believed that it was no longer acceptable to derive stocks by cumulating flows, nor to interpolate monthly flows from quarterly flows or quarterly stocks.

The STC decided in early 2004 to adopt security-by-security reporting for the balance of payments and international investment position, at (initially) quarterly frequency and covering the main creditor and debtor sectors in the euro area, to start in March 2008 (with respect to end-2007 data).

Many of the issues concerning collection of data on portfolio investment stocks and flows also affect data on portfolio investment income. Since income flows are required on an accruals basis (with the practical reservation noted earlier concerning accruals in the monthly balance of payments statistics), development of the CSDB is highly relevant in this area too. A further task force report ("*Portfolio investment income*") published in August 2003 examined the use of the CSDB in estimating investment income flows,

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[104] Though several Member States had adopted or were changing to other arrangements. As noted earlier, Ireland and Finland relied on direct surveys. Austria was about to introduce indirect reporting by custodians; Spain, a combination of direct reporting and indirect reporting by custodians; and the Netherlands direct reporting by custodians for assets, and indirect reporting by custodians for liabilities. Some other countries used periodic investor or custodian surveys for stocks.

[105] Security-by-security reporting – recording by individual security – may seem cumbersome and a heavy burden on reporting agents, but that is not so where the issuers, holders or agents are highly automated. Indeed, reporters seem to prefer to provide a list of securities with amounts than to provide sub-totals broken down by currency, sector, maturity, etc. all valued at market prices. Security-by-security reporting is also the only way to ensure that reporting requirements remain stable over time, as any changes in the instruments or their statistical classification will not affect the way the data are reported. Security-by-security reporting may thus help the ECB to meet its legal obligation to minimise the reporting burden.

seeking sufficient flexibility to accommodate either the creditor or the debtor approach[106] and to meet the circumstances of different economic sectors with cross-border income receipts and outgoings. The development of the CSDB is discussed in more general terms in the next chapter.

[106] The creditor (or market) approach accrues income on the basis of prevailing market prices of securities which determine the return which a new purchaser would earn. The debtor (or issuer) approach accrues on the basis of the issue price.

Chapter 40

Securities statistics and the Centralised Securities Database project

The importance of securities as financial instruments in the euro area and the difficulty of devising a satisfactory statistical treatment. The Centralised Securities Database under development seen as a potential remedy for many of the difficulties. How the CSDB will be supplied with data and managed.

Deficiencies with securities statistics are a recurrent theme of this document. They include probable classification errors, the great difficulty of identifying holders, and problems with valuation. The CSDB is designed to solve or at least lessen many of the problems with securities statistics.

Securities represent the largest class of financial instruments in the euro area. Excluding equities and shares/units issued by collective investment institutions, some EUR 8.7 trillion in securities issued by euro area residents were outstanding in December 2003, an amount growing at some 7% a year. Gross issues often exceed EUR 600 billion a month. Most of the outstanding amount (EUR 8.0 trillion) was denominated in euro, and there were in addition EUR 1.2 trillion in euro-denominated securities representing claims on non-residents of the euro area. A further EUR 3.6 trillion in quoted shares issued by euro area residents were outstanding. Securities of various kinds are an important and fast-growing component of M3 and of MFI balance sheets in the euro area. Securities represent some 20% of the aggregated MFI balance sheet in the euro area, with similar amounts on each side of the balance sheet. For comparison, annual GDP in the euro area is about EUR 7.2 trillion, and M3 about EUR 6.2 trillion.

Changes in the financial structure of the main economic sectors have prompted increasing interest in securities statistics on the part of central banks, market regulators, prudential supervisors, and private banks and other institutions. Securities issues and trading are nevertheless on a smaller scale in the euro area than in the United States. It seems likely that securities will grow as a source of financing in Europe.

In addition to the money and banking statistics, the importance of securities in the balance of payments and international investment position is enormous. Related income flows have become the third largest component of current account transactions, just behind services. Their significance in money and banking statistics and the balance of payments, together with the importance of securities as a source of finance for non-financial corporations, non-monetary financial institutions and governments, gives them a large place in the financial accounts (stocks and flows). Securities are also an important element in any assessment of the international role of the euro.

MFIs may be assumed to record their assets and liabilities in the form of securities accurately. However, in almost all other respects, securities present statistical difficulties. It is not clear at present that the sector, or even the residency status, of issuers is always correctly identified in the securities issues data. Events such as (large) mergers and acquisitions have an impact on the consistency of statistical classification which cannot easily be traced in existing sources. Valuation of securities is a constant problem; almost certainly there are inconsistencies in any statistics of outstandings. Where data are produced by residual, as in the portfolio account of the balance of payments and international investment position under the present procedure, inconsistencies of this kind are serious, with consequences for the investment income account in the current account balance of payments as well. The most conspicuous lack is information about holdings of securities. The consequences of this could be seen in 2000-01 in the distortion to the monetary statistics caused by a rapidly increasing take-up of MMF shares/units and money market paper and other marketable instruments by non-residents of the euro area, as described in Chapter 34. In the case of money market paper and other marketable debt, a transitional approach reliant to a large extent on a special collection of account holder data from international securities settlement systems had to be put into place urgently. Identifying many transactions in securities by residents of the euro area with non-residents is at present impossible with any accuracy. Thus the data concerning the portfolio investment account in the balance of payments and international investment position are not as reliable as might be wished. In the financial accounts tables currently published by the ECB, there is no sectoral breakdown of holdings of securities. So it is not possible to tell, for example, how far increasing debt of households and business is matched by their holdings of financial assets.

These comments relate to aggregated statistics on securities, i.e. the output side of statistical production, where most areas of statistics compiled by the ECB would benefit from better aggregated data on securities. For many purposes, however, data on individual securities are valuable or even essential. Thus amounts issued by individual entities, or groups, perhaps broken down by instrument types or maturity, are relevant to questions concerning prudential supervision, risk management and financial stability. Data on individual securities are relevant to monetary operations (e.g. questions of collateral), and are also valuable to statistical compilers. They offer the prospect of achieving accurate sectorisation and allocation of residency to issuers, and of correctly valuing securities issued or held; moreover, they can be put together in any desired combination without requiring work from reporting agents, providing welcome flexibility. To use security-by-security information to prepare statistical aggregates, however, the compiler needs a reference list of securities with essential information about each (a unique identifier – most securities have an ISIN code – the outstanding amount, the nature of the instrument, currency, coupon and payment date(s), sector and country of residence of the issuer, initial and residual maturity, current market price and nominal value, etc.). The reference list should be comprehensive, accurate, and up to date for each reporting round.

Apart from securities databases in some NCBs, there are several sources of data on individual securities (commercial databases; the European Commission; and the BIS, which has a large database of international issues). These existing sources offer (variously) partial coverage, and uneven quality and timeliness; there are methodological inconsistencies in the treatment of residency and sectors. The aim of the CSDB project is to assemble data about individual securities issues from disparate sources, check and correct these data, and incorporate all available information about the country of residence and sector of the holders. It will include the best available supplementary data. Incorporating information about holders will be the most difficult task, and its completion will come later in the project. The recommendations of the Task Force on Portfolio Investment Collection Systems on security-by-security reporting (see

Chapter 39 above), which were supported by a review of the merits and costs of the approach, will when implemented provide valuable information for the CSDB. Finally, the database must provide the many functions required both to use the data in the course of compiling statistics and for analytical and operational purposes using data taken directly from the database.

Information on issuers and securities for inclusion in the CSDB will come from commercial sources, checked and supplemented by NCBs in the European Union (including the new Member States), which will monitor the coverage and quality of information on issues by residents; and from the BIS, which will provide the best information available on issues on markets abroad. The ECB will manage the database and where necessary fill gaps in the information from commercial data providers or other sources. One important category of information checked by the ECB will be data on issues by non-residents of the European Union, in euro and in other currencies, where the securities concerned are likely to be held by and transacted in by EU residents. This division of tasks is seen as consistent with the organisation of statistical work generally in the ESCB, and as the most appropriate approach given the nature of the project. The CSDB may later form part of a wider global network of securities databases coordinated by the BIS and including as participants large economies outside Europe.

Development of the CSDB was well advanced by the end of 2003. It will become operational in 2004.

Chapter 41

Extension of the legal basis for ECB statistics

The starting position. How the legal basis for ECB statistics has developed. Reasons for continued reliance on a Guideline (rather than a Regulation) in the balance of payments/international investment position area. Compliance procedures.

Legal instruments

As described in Part A (Chapter 18), the legal framework for ECB statistics is the Treaty, the Statute of the ESCB and the ECB, and Council Regulation (EC) No 2533/98. Within this framework the ECB may adopt legal instruments. The most important for statistical purposes are Regulations, which have binding force on legal and natural persons resident in the euro area provided they fall into one of the categories listed in Article 2 of Regulation No 2533/98, and Guidelines, addressed with binding force to NCBs in the Eurosystem and the ECB itself.[107]

Economic and Monetary Union began in January 1999 with five ECB legal instruments in the area of statistics: a Regulation concerning MFI balance sheet statistics, ECB/1998/16; a Guideline concerning money and banking statistics, requiring NCBs (and the ECB) to provide certain information on their own business, and also requiring NCBs to transmit to the ECB data relating to other resident MFIs, and to do so in specified ways (ECB/1998/NP27); a similar Guideline concerning b.o.p and i.i.p. statistics (ECB/1998/17), together with a companion Recommendation (ECB/1998/NP21); and a Guideline concerning the protection of confidential statistical information (ECB/1998/NP28). These legal instruments seemed to be the minimum necessary to provide essential information at the start of Stage Three. In particular, the ECB refrained from imposing obligations on reporting agents where its requirements had not properly matured or seemed likely to change, and in such cases hesitated to include them in a guideline, preferring in some instances the more informal approach of guidance notes. Thus the MFI balance sheet Regulation contained no specific requirements for information to enable the ECB to derive flows statistics from reported balance sheet outstandings; this was instead the subject of Annex 3 of the money and banking statistics Guideline addressed to central banks. Similarly there was no Regulation requiring MFIs to report interest rate data; instead, Guideline ECB/1998/NP27 in Annex 9 required NCBs to transmit data on specified types of interest rates using information available to them. The Guideline in turn originally contained no reference to statistics on securities issues, nor to many compilation issues, these being covered instead in a published compilation guide (April 1998, with an addendum in September 1998 covering money market paper and bill-based lending). No ECB legal instruments covered MUFAs.

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[107] The ECB may address recommendations to national authorities outside the Eurosystem (e.g. national statistical institutes). Recommendations do not have binding force.

The development of the legal basis for the ECB's statistical activities has taken various forms:

- firming up previously informal technical arrangements – one example of this is the transfer of sections of the money and banking statistics compilation guide into the Guideline;
- bringing a whole area of work into the legal environment for the first time: examples of this include the incorporation of securities issues in the money and banking statistics Guideline, and the adoption of an entirely new Guideline on quarterly financial accounts (ECB/2002/7). This process, though important, does not however impose new requirements on reporting agents;
- extending the Regulation on MFI balance sheets to include a new dimension (valuation adjustments, or information on the residency of holders of MMF shares and units), or introducing a new Regulation creating reporting obligations in a wholly new area (the Regulation concerning MFI interest rates, ECB/2001/18).

Legal instruments have also been amended periodically to keep them up to date. Sometimes in the interests of clarity a new instrument has been adopted, repealing the previous version.

As a consequence, there has been an increase in the number and length, though perhaps not in the complexity, of ECB legal instruments concerning statistics. All statistical legislation is now published, in the interests of better public information, even if the instrument concerned does not create any obligations outside the Eurosystem.

As noted earlier, the ECB did not, and still does not, legislate until its statistical requirements are mature. Yet it receives much information which does not fall into this category. A recent example is data on "other" (non-monetary) financial intermediaries. Moreover, NCBs may collect information in connection with the ECB's statistical requirements which is not transmitted to the ECB, but used as an input to calculations, or for checking purposes, etc. NCBs may need support for their efforts to collect such information which is not directly, or not yet, required by ECB legislation: it may not be practicable to adopt new national legislation, and existing national legislation may not be enforceable in the new circumstances of Economic and Monetary Union. In this context, in addition to informing the interested public, statements of the ECB's statistical activities or needs, though not legal documents, may provide useful support for related statistical work at national level.

There is no ECB Regulation on b.o.p and i.i.p. statistics requiring economic agents to report cross-border transactions and positions. There are several reasons why it is currently impractical to prepare a wide-ranging Regulation, and may remain so:

- Member States retain diverse balance of payments collection and compilation systems. A Regulation imposes obligations directly on reporting agents in an even-handed way across the euro area. It is difficult to do so where the same transaction would need to be reported in some participating Member States but not in others.
- Unlike MFIs, which form a defined, homogeneous reporting population with well-developed accounting systems and a habit of regular statistical reporting, the potential reporting population for b.o.p./i.i.p. purposes includes any economic entity with a cross-border transaction or position – a potentially much larger and more diffuse reporting population, often in no regular relationship with statistical compilers, raising difficult questions of enforcing compliance.

- Most Member States have some national legislation in this area, which may not be central bank legislation. An ECB regulation would override such legislation, but its existence is a complicating factor.
- The balance of payments is an area of shared responsibility with the European Commission (see Chapter 21 in Part A, and Chapter 45 below). In 2003 the Commission (Eurostat) was preparing legislation to impose obligations on the national authorities and not directly on economic agents, in a way complementary to the ECB's Guideline and Recommendation (as amended). A joint instrument binding reporting agents is not feasible.

Compliance procedures

Once the legislation is in force, the ECB must ensure that it is complied with. EU Council Regulation No 2533/98 enables the ECB and the NCB involved to exercise a right of verification and compulsory collection of data (Article 6), and to impose sanctions within stated limits (Article 7). The legal obligation of a reporting institution will have been broken (Article 7.2) if no data have been received by the established deadline, or if the data are incorrect, incomplete or in a form that does not comply with the requirement. Since some of the data provided under Regulation ECB/1998/16 (as amended, and later replaced by Regulation ECB/2001/13) are used to calculate the reporting institution's reserve base, there is also the possibility of activating the procedures in (EU) Regulation No 2531/98 concerning the application of minimum reserves by the ECB.

After a few months' experience with the reporting system at the beginning of Stage Three, the ECB proposed in September 1999 a procedure for recording apparent infringements of reporting obligations under Regulation ECB/1998/16, in particular in the light of Annex IV, which defines the minimum standards for transmission, accuracy, conceptual compliance with the definitions set out in the Regulation, and revisions of statistical data to be used in compiling euro area money and banking statistics. This was the logging procedure, to be carried out by NCBs starting at the latest with data relating to December 1999. NCBs would follow the procedure institution by institution, using a common approach which recognises degrees in the seriousness of non-compliance. NCBs would report repeated offences to the ECB as soon as they were considered to be persistent in accordance with defined criteria. The logging procedure would allow the Executive Board to consider each case as set out in Article 2.3 of the sanctions Regulation (Council Regulation (EC) No 2532/98), taking into account the good faith of the MFI concerned and the consequences of the offence, while observing the principles of proportionality and equal treatment of reporting agents across the euro area. The intention was that sanctions would be exceptional; the purpose of the procedure was to encourage good reporting, not to impose punishments. Reporters would be informed promptly once a decision had been taken to start infringement procedures.

In practice the number of infringements reported to the ECB in the ensuing four years was quite low. About half of the infringements involved conceptual errors rather than inaccuracies or late reporting.

Although sanctions were imposed several times for breaches of the minimum reserves Regulation (ECB/1998/15, as amended), no MFI was sanctioned in this period for statistical non-compliance. In 2003 the STC nevertheless discussed certain amendments to the procedure with a view to putting it on a more formal footing in 2004.

The question of how to detect and handle instances of non-compliance arises where, as occasionally happens, the collection of statistical data is outsourced by a central bank. It is clear that the NCB remains responsible in such cases for observing the provisions of any relevant guideline, and must also be able to ensure that reporting agents meet their obligations under any regulation which applies, and if necessary initiate verification and enforcement procedures. In 2003, the STC addressed the question of establishing conditions to be met in an outsourcing arrangement.

Article 7 of the Guideline concerning statistical confidentiality (ECB/1998/NP28) requires the ECB to report on problems in this area; the Governing Council must assess the implementation of the Guideline at least annually. This obligation has been met by annual reports prepared by the STC. No serious problems have arisen.

Chapter 42

Further development of statistical information systems

As in the case of the statistics themselves, information systems to handle the data met essential requirements at the start of Stage Three. Developments since have made them easier to use, and more secure. Projects and other initiatives to improve handling and dissemination of data continue.

Chapter 20 in Part A described the development of information systems to support statistical work in the preparatory phase, and the infrastructure available at the start of Stage Three. As in other respects, only the bare essentials were available at the start of Economic and Monetary Union; much work was undertaken in Stage Three to develop the initial provision.

The facilities for bulk data exchange worked well and needed only minor further development to meet new requirements. As expected, more needed to be done on the ECB statistical databank to make it possible to load data from a wider range of sources using standard procedures (though specific formats for incoming data from some non-ESCB sources limit the extent to which a single loader program can accept them). It was also necessary to strengthen the security of the databank, including access control; to deal better with different versions of data, in particular to ensure that data could be frozen where necessary to ensure consistent publication; to provide facilities for production of standard statistical tables; and to provide users of the databank with more, and more convenient, facilities, including better search facilities and access to metadata (material describing the data).

The MFI statistical and monetary database, its essentials developed in 1998, has three distinct but related applications. It contains the MFI database itself, which is a list of banking institutions and textual information about them; a list of counterparties for monetary and foreign exchange operations; and a list of assets eligible for use in monetary policy operations. The database originally relied on CebaMail and ENSD (the ESCB's system for exchange of non-statistical data) for transmission of information, making it impossible to update the list of eligible assets frequently enough for operational use. In Phase II of the project, the ECB improved the data transmission system to enable databases to be updated daily. Reducing the reliance on manual work reduced error as well as speeding up the receipt and processing of data. The database also needed quicker and more reliable automatic checking facilities, and better access for users in the NCBs. In a second part of Phase II, users of the database outside the ECB (NCBs, MFIs and other market participants) were given online access.

Access to ECB statistics for users outside the ECB was much improved in the first years of Economic and Monetary Union. A website project brought improvements in the presentation of ECB statistics to the interested public, and greater convenience in their use. Meanwhile NCB users were pressing for online access to give them in effect exactly the same access as internal ECB users. This idea was not implemented in the first years of Stage Three because frequent file transfers from the ECB already enabled NCBs to update their databases within minutes of the availability of new data, and other demands on scarce IT resources were more urgent. The Working Group on Statistical Information Systems (WGSIS) instead investigated why the updates sent by the ECB were not promptly available in some NCBs' databanks. With the enlargement of the European Union and the widening range of central bank users with a variety of needs, the question of online access is likely to resurface.

The Centralised Securities Database, in an advanced stage of implementation at the end of 2003 but not yet operational, was the subject of Chapter 40. A database was also under construction at the end of 2003 to hold financial markets data. Such data on wholesale market interest rates and yields, financial asset prices, etc. had been collected and stored by the ECB since the start of Economic and Monetary Union, but the current facilities were difficult to use and manage, were imperfectly integrated with the main databank, and were incapable of handling the very high frequency "tick" data that ECB users wanted. It was difficult or impossible to load data from some sources, and screening and checking facilities were poor.

As noted above, the ECB's data exchange facility served its purpose well in the early years of Stage Three. Since it links the ECB with all NCBs in the ESCB, it was extended to the ten acceding countries in 2003. The message format which it uses, GESMES/CB, renamed GESMES/TS (short for time series) in recognition of its growing popularity, was increasingly adopted for bulk data transmission worldwide. On the initiative of the IMF, six international institutions formed a group in 2002 to promote consistent development of data exchange, with the aim of avoiding wasted effort and taking advantage of new technologies. This is known as the SDMX initiative – statistical data and metadata exchange. In addition to the IMF and the ECB, the group comprises the BIS, Eurostat, the OECD and the United Nations.

The WGSIS and the STC were also concerned to pool experience and expertise and to encourage consistent development of the statistical information systems infrastructure throughout the ESCB, without however imposing common standards on NCBs. The areas concerned include accessibility to and common features of NCB websites (since users often want to seek out national data relating to European-level aggregates); statistical and econometric software ("common tools"); and practical issues such as acceptable downtimes and contingency arrangements. At the very end of the period the STC set up a task force to review general dissemination issues, with the particular aim of improving access on the ECB's website to national statistics made available by NCBs in the European Union.

Chapter 43

Assessing the merits and costs of new or substantially changed statistical requirements

The ECB's legal obligation to minimise reporting burdens, while meeting the needs for statistics to perform its functions under the Treaty. The question of how to balance stated needs against the response burden. The merits and costs procedure devised in 2000. The experience of using it in 2000-01 in preparing new MFI Regulations reviewed in 2002.

Statistics required by the ECB for the conduct of monetary policy and to support the other functions of the ESCB share, in common with many other official statistics, the feature that suppliers, who are reporting agents in most cases, receive no payment for them, and the products to which the data contribute (mainly policy advice) are not marketed. The usual market tests, which encourage the right level of provision of commercial products by balancing marginal cost of production and marginal benefit to users, are absent. Two points are clear: statistics are costly to collect and compile; in particular, new requirements and changes are costly to set up. And the cost of policy mistakes may be high: to the extent that more or better statistics can prevent policy mistakes, it is worth spending a lot on them.

In the preparations for Economic and Monetary Union, the level of provision of statistical information was hardly an issue. The only realistic possibility was to provide the bare essentials, with the monetary policy function chiefly in mind. Controversial points (whether money market funds should be in the monetary sector, the need for breakdowns by original maturity in MFI balance sheets, the need for a monthly balance of payments) were resolved by canvassing expert user and statistical opinion. Once Stage Three had started, however, it was not always clear how far to go in building on the initial provision of essentials. Some way was needed to balance the interests of reporting agents who, in the absence of payment for data, would want to provide less, and users, who would probably always seek more.

The question arose in connection with the EU Council Regulation concerning ECB statistics (see Part A, Chapter 18), finally adopted as Regulation (EC) No 2533/98. National delegates in the Monetary Committee group, which examined a draft Regulation in 1997, sought to ensure that the ECB would not extend reporting requirements without regard for real need and the costs to reporting agents of complying with them. They were aware that Article 4 of the recently enacted Council Regulation (EC) No 322/97 on Community statistics, in connection with the Community statistical programme, requires *"a cost-effectiveness analysis which takes into account the financing costs of the action both for the Community and for the Member States"*, and also requires the Commission to indicate *"the means by which burdens on respondents will be minimised"* and *"the precise objectives for the action and an evaluation of the expected results"*. A statement of principles in Article 10 includes *"cost-effectiveness [which] shall mean the optimum use of all available resources and the minimisation of the burden on respondents. The amount of work and the costs which the production of* *statistics requires should be in proportion to the importance of the results/benefits sought".*

The EMI resisted a requirement in Regulation No 2533/98 for a formal cost-benefit analysis (understood to mean attaching a money value to costs and benefits), on the grounds that it was hardly possible to put a firm money value on the benefits of the policy improvements which more or better statistics might bring, and in practice very difficult to provide a figure for costs which would withstand scrutiny across up to 15 (or more) Member States with different statistical systems and starting points. The Monetary Committee, and later the Council and the European Parliament, were content with a requirement in Article 3 of Regulation No 2533/98 that *"In defining and imposing its statistical reporting requirements, [and] without prejudice to [their] fulfilment, the ECB shall minimise the reporting burden involved, including by using existing statistics as far as possible."*[108] This requirement is consistent with Article 285(2) of the EC Treaty, which states that *"The production of Community statistics … shall not entail excessive burdens on economic operators."*

The question arose of how to give substance to this obligation to minimise the reporting burden, while meeting the ECB's needs for statistics to enable it to carry out its functions under the Treaty.

In 1999, the initial provision of essential statistics was consolidated; no new requirements arose. However, the December 1999 STC report on the quality and availability of statistics for Economic and Monetary Union, which pointed to deficiencies and indicated how they might be remedied, stimulated discussion on the need to prioritise statistical requirements and to avoid undue increases in the reporting and collection burden. The STC consequently proposed a formal procedure for identifying and assessing new statistical requirements. The point of departure was a prima facie need to build on the essentials provided for the start of Stage Three, recognising the widespread concern that the statistical basis for policy in the euro area was weaker than it had been in those Member States previously pursuing a discretionary monetary policy, and weaker than the statistical information available to other leading central banks. The STC note could also have mentioned the emerging need for statistics to support the ECB's non-monetary policy functions, notably financial stability and the interest in monitoring the international role of the euro and structural developments in banking and finance.

In its report to the Governing Council, the STC proposed that the procedure should fulfil certain requirements:

- elicit a clearly-stated justification and prioritisation by users for new, enhanced or otherwise substantially changed requirements;

[108] This principle is repeated in Recital 2 and Recital 23. Recital 2 reads: *"Whereas, in order for statistical information to be effective as an instrument for the performance of the tasks of the ESCB, definitions and procedures for its collection need to be structured so that the ECB has the ability and flexibility to avail itself in a timely manner of high quality statistics which reflect changing economic and financial conditions and take account of the burden imposed on reporting agents; whereas in so doing attention must be paid not only to the performance of the ESCB's tasks and its independence but also to keeping the burden placed on the reporting agents to a minimum."* Recital 23 reads: *"Whereas, for the purposes of Article 5.1 of the Statute, the ECB is required to co-operate in the field of statistics with the Community institutions or bodies and with the competent authorities of the Member States or third countries and with international organisations; whereas the ECB and the Commission will establish appropriate forms of co-operation in the field of statistics in order to carry out their tasks in the most efficient way, trying to minimise the burden on reporting agents".*

- give substance to the obligation to minimise reporting burdens of reporting agents, and, where possible, consider alternative approaches or sources;
- take collection and compilation costs borne by NCBs, national statistical institutes and the ECB into account;
- seek to bundle together requests in the interests of both reporters and compilers;
- do all this without unduly weighting the balance against new proposals;
- provide for a short-cut procedure in case of urgent needs.

The procedure would relate to statistics collected and compiled by the ESCB (though in a few Member States the national statistical institute might, in full or in part, be responsible), in connection with the functions of the ESCB. The STC paper explained that the proposals covered both new statistics and substantive changes in existing statistical requirements, giving examples of the latter.

Much emphasis would be placed on a full explanation of requirements by users, normally departments of the ECB, indicating priorities. They would draw on advice from interested ESCB committees. The following in particular would be relevant considerations:

- the importance of the new information for the conduct of monetary policy and/or the performance of other ESCB tasks;
- how far the current lack of these statistics was hampering the assessment of economic and monetary developments by the decision-making bodies of the ECB;
- how far the statistical change would contribute to better quality data for EU countries and aggregates for the euro area;
- whether the published statistical results would be of use to the reporting agents themselves;
- the situation in important reference countries such as the United States.

Some impression would be needed of the aggregate costs likely to be incurred by the compilers and the reporting entities. A few reporting agents could be contacted in each Member State in order to obtain an indication of direct costs. NCBs would have to conduct this investigation with a critical eye. NCBs could gross up these estimates, including the direct costs for the NCB (or in some cases the national statistical institute) itself. A distinction between set-up costs and recurrent expenditures would be useful, as well as the extent to which the statistical information could easily be produced from the business systems of the reporting entities. Generally speaking, the more the required information matched the business needs of the reporting agents themselves, the lower the costs and the better the results – subject of course to meeting European and international statistical standards.

Drawing these considerations together, the STC proposed a procedure comprising the following steps, some of which might be conducted simultaneously.

a) A new statistical requirement emerges.
b) The users inform ECB statisticians, justifying the new requirement in writing, and indicating their priorities.
c) Statisticians make an initial assessment by (i) investigating whether (a combination of) existing statistics could cover the substance of the requirements; (ii) identifying the extent to which a new collection would be needed; (iii) looking at international reference points.
d) ECB statisticians, with the help of the STC, formulate options for meeting the requirement. Where the request concerns an area of shared responsibility for statistics at European level, the Commission (Eurostat) and, if appropriate, the

CMFB are informed and consulted. In consultation with users, it may be possible to abolish some existing (euro area or national) statistics in the relevant field.

e) NCBs make a rough calculation of costs, for both compilers and reporting agents. The ECB checks the cost estimates presented by the NCBs, combines the national estimates to a euro area/EU-wide estimate, and explains it to the users. Approaches such as sampling may be considered.
f) The STC and ECB statisticians consider how best to proceed. Users are made aware of the estimated costs at this stage to give them a chance to weigh these against the merits and possibly to reconsider, reformulate or reprioritise their request.
g) Following consideration by the Executive Board, the Governing Council takes the final decision, with the benefit of comments from the General Council.

The procedure was expected to take three to six months. A short-cut procedure could be triggered by a special request of the Executive Board to the Governing Council, having taken the opinion of the STC into account.

New requirements should so far as possible be presented as a package.

The Governing Council approved these proposals in June 2000. The ECB started to apply the procedure in preparing a new Regulation on MFI interest rates (see Chapter 24) and enhancements to the Regulation concerning the consolidated balance sheet of the MFI sector (ECB/1998/16) (Chapters 32-33).

The Governing Council had requested a review of the procedure after a year. Experience soon showed that steps (d) and (e) – formulating options and providing *"a rough calculation on costs … both by compilers and reporting agents"* – needed further thought; these steps were clarified later in 2000. The full review took place in 2002, when the experience of applying the procedure to the enhanced MFI balance sheet and the new MFI interest rate Regulations (ECB/2001/13 and ECB/2001/18) had been absorbed. In a review paper (October 2002), the STC considered that the procedure had in general met the original requirements and did not need fundamental change. Involving reporting agents informally in the early stages had proven useful by providing valuable feedback and promoting understanding and acceptance of new requirements.

However, there were weaknesses. The STC considered that the procedure had sometimes caused a heavy workload for the reporting agents involved and for the producers and users of statistics in the NCBs and the ECB, and had delayed the new Regulations. The involvement of the reporting agents would have benefited from less tight deadlines. As new user requirements vary considerably in complexity and size, the STC review proposed that the merits and cost procedure (especially steps (d) and (e)) should be applied flexibly. The results should be more comparable. Relative costs would be better split into implementation and running costs, and the cost scales used should be linked to a relative amount of monetary cost (e.g. "30% of the present costs") if there is already a reporting scheme in place. For clearly identifiable cost elements (in particular if comprehensive and directly identifiable IT costs are involved), the ECB and the NCBs might volunteer estimates of money costs, possibly as a range: some attempt to quantify the total direct cost for the euro area as a whole might be made.

In addition, users' priorities might be made clearer. Statements of requirements might still be improved, with a clearer link to ESCB tasks and functions. The ESCB Committees might have a role in adjudicating where there were several users with conflicting claims. If the new statistics were also used for national purposes and by reporting agents themselves, the costs which would have been incurred anyway to satisfy these requirements even in the absence of the new euro area statistics should at least be mentioned. The exercise should also explore the possibility of dropping any existing requirements. There should be a final user assessment, relating the proposals to the initial requirements at the point of presentation to the Governing Council, which should be informed how the different options for meeting requirements were ranked. The STC concluded that the procedure should nevertheless be more concise, with more emphasis on trade-offs and priorities, and giving more prominence to the restatement of needs by users in the light of information about costs.

In addition, the STC noted that the context was changing. Enlargement of the EU and prospectively the euro area might increase the pressure for changes yet lengthen delays between the emergence of new requirements and their implementation. Three to six months had already proven to be too short a time to complete the procedure. The STC suggested that 7-13 months would be more realistic, with complex new requirements taking longer. Allowing time for enacting legislation where necessary, then giving time to reporting agents and statistical compilers to prepare, suggested at least two years between starting the process and receiving new data, unless the “urgency” procedure was activated.

The Governing Council requested a further review in three years’ time.

Chapter 44

Some aspects of quality

The development of quantitative tests for statistical quality. Periodic reports on quality now required under ECB Guidelines concerning balance of payments/international investment position statistics and quarterly financial accounts. Prospect of adoption of international accounting standards by (at least) listed companies in 2005, with implications for their statistical reporting.

Shortly before the start of Economic and Monetary Union, the WGS warned on likely data quality: *"While all involved aim at good quality properly articulated monetary union aggregates, no amount of effort can provide at the start of Stage Three these aggregates with the same established level of availability, detail, quality and continuity as central banks currently have available at national level"*. (Report to the EMI Council, April 1998).

The concern was not with processing procedures, nor, in most cases, with the numerical accuracy of the raw data. All processing facilities at the ECB contain checks designed to reject or flag data which break accounting constraints or look implausible in the light of other current data or their own past values. Aggregation procedures are carefully constructed and regularly checked. The aggregated data are scrutinised in the light of their own previous values and against related series for consistency and good sense. Exercises described in early chapters to compare parts of the balance of payments with flows derived from MFI balance sheet data, and to compile the euro area financial accounts, provide an opportunity to cross-check data from different sources.

While reliable raw material and accurate processing are clearly essential to good quality in euro area statistics, they are not sufficient for it. Quality has many dimensions operating at all levels of the statistical process. Much of this book is about attempts to improve the coverage, comparability, reliability, frequency, and timeliness of the reported data which in most cases provide the ingredients for euro area aggregates. Euro area data must capture the essence of the economic and financial developments which they seek to depict, and this statistical picture must be relevant to the policy functions of the ECB. In other words, the euro area statistics must lead the ECB to the right policy decisions, and help the ECB to explain these decisions publicly; they must be well-fitted to the ECB's policy responsibilities and to the analysis supporting its actions. Moreover, given the time it takes to develop new sources, and the natural wish of reporting agents for continuity, ECB statistics must be sufficiently flexible to adapt to a changing economic and financial environment and to any changes in the emphasis of policy. ECB statistics must display a general fitness for use and sufficient robustness to remain suitable in changing circumstances, as well as sufficient frequency, timeliness, reliability (not unduly prone to revision) and consistency across related areas.

Assessing quality

"Quality" as assessed in the quality and availability reports in 1998-2002 embraced these elements but in a rather impressionistic way. Given the obvious early shortcomings of some areas of statistics in the first years of Economic and Monetary Union, this was to be expected. But a more mature statistical system looking to make further but mainly marginal improvements needs a more focused definition of quality and some objective means of assessing it.

With similar considerations in mind, in their fourth progress report on statistical requirements for EMU (November 2001) the EFC asked the SPC, in close cooperation with the CMFB, to make proposals on how to *"operationally assess the various dimensions of quality"*. A preliminary report on assessing the quality of balance of payments statistics provided material for the EFC's fifth report in autumn 2002. A further report was released by the CMFB in November 2003. The work builds on the IMF's data quality assessment framework.

The ECB/Eurostat task force which prepared the report devised quantitative tests for some dimensions of quality:[109] accuracy and reliability (measures of the extent and bias of revisions); serviceability (measures of internal consistency based on the size and direction of errors and omissions, and of external consistency assessed by comparing parts of the balance of payments with external trade data and MFI balance sheets). They applied these tests in a prototype annual data quality report on the euro area balance of payments and international investment position, which also included assessments of timeliness and of methodological soundness, where national practices were compared with recommended practices in the ECB's annual publication "*European Union balance of payments/international investment position statistical practices*". Such studies help users to assess the first release of data and to judge how much reliance to place on it.

The CMFB envisages that the annual data quality reports should be published from 2004; and that Member States should prepare quality assessments of their national statistics, using the same quality indicators. It might also be noted that periodic quality reports have become mandatory in other areas of statistics (see for example Article 7 of Guideline ECB/2002/7 concerning quarterly financial accounts; the first Article 7 report was submitted to the Governing Council in November 2003).

Accounting standards and statistical requirements

Much of this document has been about efforts to achieve comparable statistics across Member States, and consistency across areas of statistics. The first is a prerequisite for meaningful aggregation of national results to form euro area aggregates. The second greatly eases the use of statistics and increases their value for policy analysis and

[109] The full set of dimensions identified by the task force, and elements within them, is:
methodological soundness
integrity [meaning statistics are free of political or user bias]
accuracy and reliability
serviceability
relevance
timeliness
consistency [internal, external, over time]
accessibility

economic research. For reasons of this kind, *“harmonisation, where necessary”* of statistics is a Treaty obligation on the ECB as it was on the EMI when preparing for Economic and Monetary Union.

Harmonisation has been on, or at least towards, European and international statistical standards, notably the SNA 93, ESA 95 and BPM5. These standards were designed to help the aggregation of data for individual economic entities into sectors that display common features of economic behaviour, with the needs of policy analysis in mind. This contrasts with the purpose of accounting standards, which is to assess in a comparable way the financial condition of individual entities with the focus on solvency and profitability.

In the interests of timely response, accurate data and limiting the response burden, the ECB has often permitted a flexible application of its reporting requirements. There are many instances where the ECB has accepted adherence to national accounting standards, for example in balance sheet valuation. Some sacrifice of coherence and consistency across data originating in different Member States, and across areas of statistics, has thereby been accepted for practical reasons in both money and banking and balance of payments statistics.

So far the move towards uniform accounting standards has been limited. Accepting accounting data to meet statistical requirements has meant accepting data conforming to national accounting standards. From 2005, however, under European Parliament and Council Regulation No 1606/2002 on the application of the International Accounting Standards (IAS), listed companies in the EU will be required to submit consolidated accounts conforming to common standards. Member States may require or permit listed companies to do the same for individual accounts, and require or permit unlisted companies to do the same. It is not yet clear how far Member States will go beyond what is compulsory in the Regulation. Nor is it yet clear what the exact contents of the IAS will be, since some elements are still under discussion. What is clear though is that there will be an important step towards uniform accounting for European companies.

Statisticians in the ECB and elsewhere have given a cautious welcome to this development. Although, depending on how the Regulation is applied, accounting practices within Member States may become more diverse, there will be more uniformity across the European Union, and perhaps much more, as at least most large enterprises are obliged to adopt the international standards. In many respects the IAS is likely to approximate to EU statistical standards, particularly in the adoption of market price-based valuation rather than historic cost. A risk is that a single set of accounting standards enforced by Community legislation may in practice make it difficult for statisticians to introduce different statistical standards where there is strong reason to do so.

Chapter 45

Cooperation with the European Commission

A new Memorandum of Understanding (March 2003) with details of the division of responsibility at European level between the ECB and the Commission, and arrangements for cooperation.

Chapter 21 in Part A described the work in 1995 to define responsibilities for statistics at European level and to develop a framework for cooperation to promote consistent development of statistics without friction or overlap. The outcome took the form of WGS reports ("*The statistical field of competence of the ESCB*" and "*Statistical cooperation at the Community level in Stage Three*") adopted by the EMI Council in July 1995, and a Memorandum of Understanding (also July 1995) setting down respective responsibilities and related procedure in more detail. The arrangements worked well in the early years of Stage Three.

In March 2003, the 1995 Memorandum was replaced by a new document entitled "*Memorandum of Understanding on economic and financial statistics between the Directorate General Statistics of the European Central Bank (DG Statistics) and the Statistical Office of the European Communities (Eurostat)*". The new Memorandum makes no fundamental change in responsibilities, but covers some areas not mentioned in the 1995 document. It starts by defining responsibility:

"Responsibility in the context of this Memorandum of Understanding means the right and obligation to take the initiative in advancing the development of economic and financial statistics; in instigating and carrying through the necessary legal measures; in ensuring that data are collected and processed; in acting as the prime source of publication, and disseminating data accordingly; and in keeping the data relevant to user needs and economic and financial conditions.

Prime responsibility means that either the ECB (DG Statistics) or the Commission (Eurostat) takes responsibility, with due regard to the interests of the other. Shared responsibility means that both the ECB (DG Statistics) and the Commission (Eurostat) take the responsibility in an area of statistics, while defining prime responsibilities within this area and cooperating closely to ensure coherence."

The document goes on to explain why there is a need for cooperation, mentioning the legal instruments which require it:

"Since there is an overlap between the statistics necessary for the performance of the activities of the Community and those necessary for the ECB to undertake the tasks of the ESCB, and since it is necessary to ensure consistency across areas of statistics within the framework of the European System of Accounts (ESA 95) in the Community, there is a need for cooperation. Article 9 of Council Regulation (EC) No 322/97 obliges the Commission within its fields of activities to cooperate closely with the ECB, taking due account of the principles defined in Article 10 of Council Regulation (EC) No 322/97, and Article 5.1 of the Statute obliges the ECB within its field of activities to cooperate, inter alia, with the Community institutions and bodies. Moreover, Article 5 of

Council Regulation (EC) No 2533/98 obliges the ECB to consult the Commission on draft regulations whenever links with statistical requirements of the Commission exist and according to the first indent of Article 105(4) of the Treaty the ECB has to be consulted on any proposed Community act in its field of competence, which includes economic and financial statistics."

This is all based on the roles which the Treaty gives to the Community institutions and the ECB in the provision of statistics, in Article 285[110] and in Article 5 of the Statute.

The Memorandum of Understanding establishes two broad areas of prime responsibility. Money, banking and financial markets statistics are a prime responsibility of the ECB. As well as MFI statistics, they include balance sheet and transactions data of "other" (non-monetary) financial intermediaries except insurance corporations and pension funds; interest rates, yields, financial asset and derivatives prices; data on e-money issuers; and securities issues, redemptions and outstandings. The Memorandum however recognises the Commission's expertise in calculating yield curves; and also recognises the ECB's expertise in long-term government bond yields and its role in assisting the Commission by compiling them for convergence purposes. ("Assisting" is the appropriate word because the Treaty (Article 5 of the Protocol on the convergence criteria) states that the Commission must provide the data used for assessing convergence.)

The second broad area of prime responsibility is the Commission's, for general economic statistics, including prices and costs, output, expenditure and income, indicators of production and demand, labour market and external trade statistics, together with *"the accounting rules, concepts and classifications used in economic statistics"*. In both areas of prime responsibility, the other party (the Commission and the ECB respectively) may put forward views to the party exercising prime responsibility and has the right to collect information directly from the competent national authorities if the information provided does not fully satisfy its needs.

In the other areas of statistics covered by the Memorandum, the Commission (Eurostat) and the ECB (DG Statistics) share responsibility at Community level, with prime responsibility within the area allocated along agreed lines. In a few cases responsibility is fully shared. Thus in the area of balance of payments statistics, the ECB has prime responsibility for conceptual work concerning the financial account and investment income, but – reflecting the close interest and expertise on both sides – direct investment is an area in which responsibility for conceptual work is fully shared. In compilation, only the ECB will prepare a monthly balance of payments and other aggregates relating to the euro area. Neither party will issue legal instruments binding reporting agents except where necessary for carrying out the tasks allocated to their institution. In closely related areas, the ECB has prime responsibility for international reserves statistics of the Eurosystem, and for the effective exchange rate of the euro, and Eurostat has prime responsibility for statistics on foreign affiliates.

In financial accounts and related statistics, only the ECB will compile quarterly financial accounts for the euro area. The Commission will ensure that Member States provide national financial accounts under the ESA 95 Regulation (No 2223/96). The

[110] Article 285(1) reads "*Without prejudice to Article 5 of the [Statute of the ESCB], the Council… shall adopt measures for the production of statistics where necessary for the performance of the activities of the Community*".

Memorandum makes clear that the whole undertaking lies within the framework of national accounts statistics. The related field of non-financial accounts by institutional sector, still under development, is an area of shared responsibility, with the Commission having prime responsibility to ensure that Member States meet their obligation under Regulation No 2223/96 to provide annual economic accounts by institutional sector, and to compile and publish these data at Community level.

The statistical infrastructure (common facilities relevant to all or many statistics, like seasonal adjustment methodology and practice, a framework for assessing quality, data transmission standards, and the relationship between statistical and international accounting standards) is also a shared responsibility.

The Memorandum of Understanding deals with bilateral exchanges of data and with reproduction of data, where each party undertakes to reproduce data, if it chooses to do so, as most recently released by the other party as prime source, except that the data may be combined to form aggregates or seasonally adjusted in a different way. Cooperation will take place through bilateral contacts, through the CMFB (as required in legislation), and through cross-participation in other statistical committees. There is provision for resolving disputes, at Commissioner/ECB Executive Board member level if necessary.

Annexed to the Memorandum is a more detailed account of agreed arrangements in the balance of payments/international investment position area.

Enlargement

Chapter 46

Non-participating member states and ECB statistics

The ECB's need for data from EU Member States outside the euro area. Their statistical obligations (without being bound by ECB legal instruments). Preparations for EU enlargement in May 2004.

The ECB has no legal power to oblige non-participating Member States to report statistical information. Nevertheless, as explained earlier, various requirements in the Treaty and in the Statute of the ESCB imply provision of statistics by all EU Member States. Article 10 of the Treaty obliges Member States to take all appropriate measures to ensure fulfilment of the obligations arising from the Treaty or resulting from action taken by institutions of the Community. Article 99 requires Member States to regard their economic policies as a matter of common concern and Article 114(2) requires the ECB to participate in the Economic and Financial Committee, which has a broad mandate to monitor and report on the economic and financial situation in the Community, and specifically (under Article 114(4)) in non-participating Member States. Article 124 requires non-participating Member States to treat their exchange rate policy as a matter of common interest. In the Statute, Article 5 on the collection of statistical information applies to all Member States and Article 44 requires the ECB to take over tasks of the EMI which, because of derogations, must still be performed. These include the preparation of convergence reports under Article 122(2) of the Treaty, and strengthening coordination of monetary policies (Article 117(2) of the Treaty together with Article 44 of the Statute). Article 47.2 of the Statute states that the General Council of the ECB (in which non-participating Member States are represented) must contribute to the collection of statistical information. The EU Council Regulation on the collection of statistical information by the ECB (No 2533/98) recognises that, while the statistical information needed to fulfil the ECB's needs is not the same for participating and non-participating Member States, the latter have obligations in the statistical area and should make timely preparations for future participation in Stage Three of Economic and Monetary Union. Article 4 requires all Member States to "*organise themselves in the field of statistics and … fully co-operate in order to ensure the fulfilment of the obligations arising out of Article 5 of the Statute.*"

There are essentially three reasons why the ECB seeks data from non-participating Member States:

(i) Any Member State may adopt the euro following the procedures specified in the Treaty. This could, in principle, happen quickly; the Treaty sets no minimum preparatory period. The Treaty requires the ECB to prepare a convergence report on non-participating Member States at least every two years, or at the request of a non-participating Member State. The ECB needs to know that non-participating Member States are at an advanced state in the preparatory process, since at the time of entry into the euro area all statistical requirements in force in the euro area must be fulfilled if the euro area aggregates are not to deteriorate following enlargement.

(ii) The ECB monitors developments closely due to the economic and financial links of the non-participating Member States with the euro area. The exchange rate mechanism (ERM II), in addition to tightening these links, gives the ECB a responsibility in connection with intervention. For the monetary policy coordination between the ECB and the central banks of non-participating Member States required by the Treaty, the exchange of comparable statistical information is very important.

(iii) Non-participating Member States may be a source of data to complement or complete statistical information from the euro area. Examples are information about holdings of marketable monetary instruments issued by MFIs in the euro area by non-residents of the euro area, and about euro-denominated assets and liabilities of MFIs located in non-participating Member States, and other liquid assets which may be held outside the euro area by residents of the euro area.

The obligation to strengthen the coordination of monetary policies alone is sufficient reason for the ECB to pay close attention to monetary and related statistics in non-participating Member States. Although of the non-participating Member States only Denmark had a formal exchange rate link with the euro area at the end of 2003, the role of the ECB in the operation of ERM II implies a particular interest in the balance of payments of non-participating Member States. The general monitoring function implies a need for a broad range of data on economic and financial developments. The need for the ECB to be ready to deliver a convergence report at short notice implies close attention in particular to consumer price (HICP) and government finance (deficit and debt) data. The ECB's involvement in the EFC underlines the importance of these needs.

The statistical information made available to the ECB by Denmark, Sweden and the United Kingdom is as comparable as possible to that provided by Member States in the euro area, in definition, coverage, frequency and timeliness. Since the data are not included in the euro area aggregates, however, some departures from the definitional standards and timeliness can be accepted, and, in the case of UK balance of payments statistics, a lower (quarterly) frequency. Non-participating Member States need not make the euro/non-euro area split in their statistics, since the data are not used for aggregation; they should however prepared to make it, and be able to provide good estimates for earlier dates, when they join the euro area.

The accession of a further ten countries to the European Union in 2004, and the prospect of further enlargement of the euro area, have given a new importance to statistics relating to non-participating Member States. Whereas Denmark, Sweden and the United Kingdom had contributed to the development of statistics for Economic and Monetary Union,[111] and have played a full part in preparing further enhancements, very largely implementing the consequent changes in their own statistics, the new Member States joining the European Union in May 2004 played no part in statistical preparations for Stage Three and have had until recently a limited role in later statistical developments. Nevertheless, their statistical systems have made much progress towards the ECB's needs. All aim to conform to the ESA 95 and the BPM5. Although the EMI could not afford to do so because of the urgency of the preparatory work, Eurostat and

[111] Sweden, with Austria and Finland, joined the European Union only in January 1995. However, they had been kept informed of developments for some time previously and had attended meetings of the WGS and its task forces as observers from the date of signature of their Acts of Accession in June 1994.

some NCBs provided technical assistance to them even in Stage Two. Early meetings took place under the CMFB umbrella. These efforts have intensified, and in 1999 the ECB began a series of seminars, workshops and training visits for (principally central bank) statisticians in the acceding countries. The main aim was to make the acceding countries familiar with the ECB's requirements in the areas of money and banking and financial markets statistics, and b.o.p and i.i.p. statistics, and with the arrangements for data transmission.

The ECB used an approach which had proven a valuable instrument for harmonisation when preparing for Stage Three. With considerable involvement from the acceding countries, the ECB prepared, and in 2001 began to publish, methodological manuals summarising the ECB's requirements and describing in detail current practice in the acceding countries. The latest versions were published in spring and autumn 2003. The ECB has also published lists of MFIs in the acceding countries, prepared by acceding NCB statisticians in accordance with the agreed definition. These manuals are more than reference works. Their main role is to identify priorities for harmonisation and thus to prepare for enlargement of the European Union and, in time, of the euro area. Finally, the acceding countries have been transmitting monetary, financial and balance of payments statistics regularly to the ECB since 2002.

In autumn 2002, Economic and Finance Ministers from the European Union and the acceding countries invited the Commission and the ECB to draw up an Action Plan indicating the priorities for improvements in monetary, financial and economic statistics in preparation for accession. The Action Plan was presented to the ministerial groups in May 2003. The ECB has prepared an Accession Master Plan as a means of guiding and monitoring ECB preparations for enlargement of the European Union. Broadly speaking, at the end of 2003 in the areas of statistics for which the ECB has prime or shared responsibility, compliance with ECB standards was highest in balance of payments, international investment position and international reserves statistics, and lowest in quarterly financial accounts. Acceding countries were implementing the MFI balance sheet and interest rate Regulations and the MFI definition.

Looking ahead

Chapter 47

Further plans

Despite improvements described in earlier chapters, more remains to be done to strengthen the statistics available for policy analysis in the ECB. Priorities for further development as seen by ECB economists, and a medium-term strategy for ECB statistics.

Earlier chapters have described the work done in the first five years of Economic and Monetary Union to remedy deficiencies in the initial provision of data, which, as explained in Part A, was kept to a minimum for lack of time and resources, and largely confined to meeting the needs for monetary policy.

This further work has much extended and improved the statistics available. Nevertheless, gaps and deficiencies remain. While recognising the achievements, a paper by ECB economists in December 2003 listed further improvements which they would like to see in the areas for which the ECB has responsibility at European level, full or shared with Eurostat, namely money and banking, financial markets and balance of payments and related statistics, and financial accounts. They ranked these further improvements in terms of importance and urgency, taking into account the need to avoid so far as possible changes in the MFI reporting system for at least five years after the adoption of Regulations ECB/2001/13 and 18. As well as noting their own perception of gaps in the availability of statistics, ECB economists compared the provision of euro area statistics with the information available in the other main economic areas, especially the United States, the United Kingdom and Japan.

A common theme was the need for more back data in order to facilitate model-based monetary and financial analysis. For reasons explained at various points in this document, compiling back data for dates and periods before the start of Economic and Monetary Union is not straightforward because of differences and gaps in the national statistics, and because the information needed to effect a proper consolidation at euro area level, namely a sufficiently detailed breakdown of business with non-residents, is usually not available. Compiling back data therefore necessitates much estimation using whatever approximate sources and methods are available. These difficulties will increase as the euro area expands. Nevertheless, the STC and its working groups were willing to expand the range of back data available, and to extend the period covered.

Longer runs of monetary, securities issues and balance of payments data for the euro area will contribute to longer series of financial accounts. As explained earlier, the 1996 implementation package identified these as key sources for euro area financial accounts, to be supplemented by national financial accounts. To the extent that earlier financial accounts on a national basis exist, it will be possible to work backwards to construct aggregates for the euro area, though no doubt with diminishing detail and accuracy. Several euro area Member States, however, had no national financial accounts until the ESA 95 required them, and for these countries alternative sources are likely to be sparse.

ECB economists strongly support the intention of statisticians to move as quickly as possible to a full coverage of financial accounts, with sectoral counterpart information –

what the SNA 93 calls “detailed” financial accounts. They also strongly support the work to integrate economic and financial accounts in the top-to-bottom accounts under development in the quarterly sectoral accounts project (see Chapter 31).

Financial markets statistics is another area where ECB economists see a need for improvement. One need is back data for at least some categories of MFI interest rates (the new series which date from implementation of Regulation ECB/2001/18 in January 2003). Another is back data for quoted shares, which, as Chapter 25 explained, have only recently been introduced into the ECB’s securities issues statistics, and data on unquoted shares, which may be an important source of finance for non-financial companies in the euro area, but are absent from the securities issues statistics and from the euro area financial accounts. Another wish of the users, data on securitisation, is already under development as explained in Annex 2 to Chapter 32.

Other gaps in financial market statistics will be, or most appropriately could be, filled by the Centralised Securities Database project as it becomes operational. Sub-sector breakdowns and more detailed maturity breakdowns of securities issues and outstanding amounts (where at present the only distinction is between short and long-term paper), spreads between yields on corporate and government bonds, and data on the type of issue (including whether at fixed or floating rate) and on the credit rating of the issuer, all fall into this category. ECB economists also seek better data on mergers and acquisitions, corporate insolvencies, and corporate earnings.

These improvements would not require reporting agents to provide more information. This is also the case for filling some of the other gaps identified by ECB economists. Balance sheet data and perhaps other data relating to groups or classes of MFI fall into this category. It is a matter of aggregating sub-sets of the MFI balance sheet or other data. At present the only categories of MFI distinguishable in the statistics are central banks, credit institutions and money market funds. The challenge in extending the classification is to define further sub-groups which represent meaningful distinctions in the euro area, given the differences in banking structures in the Member States.

Filling some other gaps would require more information to be reported, and not only more effort on the part of the ECB and NCBs in collecting information from diverse sources and compiling it, as in the cases discussed above. Examples of this include an industrial analysis of MFI lending to non-financial corporations; and a breakdown of lending into secured and unsecured loans, and into amounts at fixed and variable rates (currently available for new business only in the MFI interest rate statistics). Some of the few gaps seen in the euro area balance of payments statistics also fall into this category, namely direct investment by branch of activity, more frequent than annual breakdowns of cross-border transactions in services, and information on import and export prices for services.

Filling many of these gaps fits readily into a medium-term plan for ECB statistics developed earlier in 2003. The areas identified for expansion of ECB statistics – in addition to preparing for EU and in due course euro area enlargement – are:

- the CSDB (with information on, among other aspects, issuers, credit ratings, yields, and holdings of securities);
- financial markets statistics (with extensive information on volumes and prices);
- financial innovation, with the aim of keeping statistical coverage up to date;
- improvements to b.o.p and i.i.p. statistics, including data on partner countries;
- a full system of quarterly accounts for the euro area, integrating quarterly “detailed” financial accounts showing who finances whom, with quarterly non-financial accounts for economic sectors.

Other medium-term priorities are better statistics relating to financial stability and financial structures in the euro area; the familiar quest for fuller and timelier economic data relating to the euro area; and efforts to improve the dissemination of euro area statistics.

The STC's work programme for 2004, and the work programmes of the groups reporting to the STC, are firmly based on these medium-term priorities. Enlargement issues are naturally an important theme in 2004. So too are accounting issues and their relationship to statistical standards, in view of the planned implementation in 2005 of Community legislation (Regulation No 1606/2002 on the application of international accounting standards) and the review of international statistical standards (including the BPM5 and the SNA 93) which began in 2003. The final stage of development, and then the commissioning, of the CSDB, is also a high priority for 2004. Meanwhile efforts will continue to extend quarterly financial accounts and integrated sectoral accounts for the euro area, and to improve further, along the lines indicated by the main users, the areas of statistics for which the ECB is principally responsible, or shares responsibility, at European level.

Annex to Part B

The changeover to euro banknotes[112] in January 2002

The cash changeover had important though temporary statistical aspects. In close cooperation with the Accounting and Monetary Income Committee (AMICO) and the Banknote Committee (BANCO), and with Eurostat, the STC sought to ensure a consistent and economically sensible treatment throughout the statistics by the Eurosystem and by other MFIs at all stages of the operation.

The new euro banknotes were delivered to the Eurosystem central banks in autumn 2001; they in turn made advance deliveries, mainly to banks, and through them to retailers and other bulk handlers of currency, in an operation called frontloading. The new euro currency was legal tender throughout the euro area from 1 January 2002.

In the period before the changeover, it was important to ensure that the new euro notes, wherever held, were not treated statistically as banknotes. NCBs were not to record them as banknotes issued (where they had been frontloaded), and nor were they to be recorded by other MFIs as banknotes held. This treatment ensured that they did not affect statistics of banknotes in circulation before they became legal tender and began to circulate with the public.

With effect from the changeover date, the new currency was to be included in "currency in circulation" in the NCBs' statistical balance sheets (and in "banknotes in circulation" in their financial statements), and in "cash" on the assets side of the balance sheets of other MFIs. The difference between the two amounts would then be included in the euro area monetary aggregates. Meanwhile, banknotes denominated in the former national currencies remained legal tender in most Member States, and even if not legal tender continued in use. AMICO proposed that the remaining amounts in issue of the former national currencies should continue to be recorded in "banknotes in circulation" at least until the end of 2002. Statisticians were content to follow this treatment which, with a parallel treatment by other MFIs, ensured that the amounts still in circulation remained in the monetary aggregates. After the end of 2002, unreturned national banknotes were recorded as "remaining liabilities" in Eurosystem statistical balance sheets and – to the extent that they held them – as "remaining assets" in other MFI balance sheets. They ceased to be included in euro area monetary statistics, with an adjustment to avoid distortion to flows and monetary growth rates.

Over the years, an unknown but substantial amount of currency issued in the Member States forming the euro area came to circulate elsewhere.[113] To the extent that it was detected at the time, this export of national banknotes was recorded in national **balance of payments statistics,** in "other investment" in the financial account with a counterpart (debit) entry in an appropriate part of the account (e.g. travel, workers' remittances). In some Member States banknote movements were the only or main source of information for such items. These items (net debits in the euro area current account balance of payments, after allowance for cross-border transactions within the area) could be

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[112] In most Member States coin is issued by the government, not by the central bank. For convenience, however, NCBs include coin in "currency in circulation" in their statistical balance sheets, with a matching entry in "remaining assets". In this annex, banknotes should be understood to include coin.

[113] The Bundesbank estimated in 1995 that some 30-40% of its banknotes might be held outside Germany (F. Seitz, Deutsche Bundesbank discussion paper, January 1995).

assumed to be stable and to have continued through and after the cash changeover. In 2001 and 2002 the net export of notes for established reasons was swamped by movements presumably to do with the changeover – broadly, a large net inflow of national notes in 2001, and an even larger net outflow of euro notes in 2002. Without retrospective adjustment to the euro area balance of payments, these exceptional flows of notes, over and above the flows for established reasons, which were treated in a symmetrical way in the balance of payments, would have inflated errors and omissions in the accounts. Retrospective adjustments to the euro area balance of payments were accordingly made in 2003.

At present the Eurosystem relies on informal information on shipments of banknotes to and from countries outside the euro area. The US authorities have an official source of information on movements of dollar banknotes.

The cash changeover also had implications for the **Excessive Deficit Procedure**. Writing off unreturned national currency banknotes (which NCBs do according to national accounting procedures) yields a windfall profit to NCBs. The CMFB recommended that the proceeds of writing off, if passed to governments, should not be treated as reducing the fiscal deficit. Such payments would however reduce government debt.

For the treatment of euro banknotes in NCB statistical balance sheets and for the purpose of calculating national contributions to M3, see the annex to Chapter 22.

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Chapter 13 – The effective exchange rate of the euro

Common understanding on the computation and publication of national competitiveness indicators (ECB, 17 June 1999)

Effective exchange rates for the euro (ECB Monthly Bulletin, October 1999, Box 5)

The effective exchange rates of the euro (L. Buldorini, S. Makrydakis, C. Thimann; ECB Occasional Paper No 2, February 2002)

Other economic and financial statistics

Chapter 14 – Financial accounts

Quarterly Monetary Union Financial Accounts (MUFAs)

Catalogues of users' requirements in the field of money and banking, balance of payments, financial accounts and ECU statistics, and current conceptual follow-up – interim report (WGS to Committee of Governors, December 1992)

System of National Accounts (United Nations, 1993)

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Monetary Union Financial Accounts – feasibility study (report to WGS of an informal group, March 1997)

National quarterly financial accounts (papers prepared by task force members and staff of the Board of Governors of the Federal Reserve System, June 1997-January 1998)

Valuation of unquoted shares and other equity (MUFATF, 27 November 1998)

Central bank uses of financial accounts (papers presented at ECB seminar, 22 November 1999) [includes paper on work to compile financial accounts at the ECB]

Financing and financial investment of non-financial sectors in the euro area (ECB Monthly Bulletin, May 2001)

Guideline on the statistical reporting requirements of the ECB in the field of quarterly financial accounts (ECB/2002/7)

Government finance statistics

Report to the Monetary Committee on information requirements in Economic and Monetary Union (Monetary Committee Working Group on Statistics, 28 October 1998)

Commission Regulation (EC) No 1500/2000 of 10 July 2000 implementing Council Regulation (EC) No 2223/96 with respect to general government expenditure and revenue

Chapter 15 - Consumer prices and general economic statistics

The Harmonised Index of Consumer Prices (HICP)

Treaty establishing the European Community - Protocol on the convergence criteria (consolidated version, December 2002)

First proposals relating to statistics in Stages Two and Three and development of work: Module VII - Harmonisation of consumer price indices – requirements of central bank users (WGS report to Committee of Governors, December 1993)

Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Council Regulation (EC) No 1687/98 of 20 July 1998 amending Commission Regulation No 1749/96 concerning the coverage of goods and services of the harmonised index of consumer prices [Annex 1b defines household final consumption expenditure]

The stability-oriented monetary policy of the Eurosystem (ECB Monthly Bulletin, January 1999)

General economic statistics

Statistical co-operation at the Community level in Stage Three (WGS report to EMI Council, July 1995)

"Phasing-in" the statistical requirements for Stage Three of Monetary Union (WGS report to EMI Council, January 1996)

General economic indicators prospectively needed by the ECB on a harmonised basis – report for the attention of the SPC and the CMFB (WGS, 24 May 1996)

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Council Regulation No 1165/98 of 4 June 1998 concerning short-term statistics

Report to the Monetary Committee on information requirements in Economic and Monetary Union (Monetary Committee Working Group on Statistics, 28 October 1998)

Non-financial statistics supporting the analysis of euro area-wide economic developments (ECB Monthly Bulletin, January 1999, Box 5)

The role of short-term indicators in the analysis of price developments in the euro area (ECB Monthly Bulletin, April 1999)

Monitoring wage and labour cost developments in the euro area (ECB Monthly Bulletin, October 1999, Box 3)

Other statistical issues

Chapter 16 - Accounting issues

Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions [the Bank Accounts Directive (BAD)]

Further proposals relating to money and banking statistics and balance of payments statistics for Stage Three - Accounting issues in the field of central bank balance sheet statistics; Accounting issues in the field of banking statistics (WGS reports to EMI Council, January 1996)

European Union balance of payments (capital and financial account) – statistical methods (EMI, 1st edition, January 1998)

Money and banking statistics compilation guide: guidance provided to national central banks for the compilation of money and banking statistics for submission to the ECB (EMI, April 1998, with an addendum, September 1998)

Regulation concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/1998/16)

Guideline concerning certain reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics (ECB/1998/NP27)

Guideline on the statistical reporting requirements of the ECB in the field of balance of payments and international investment position statistics (ECB/1998/17)

Chapter 17 – Back data and seasonal adjustment

Back data

Reporting scheme for the purposes of compiling monetary statistics following the layered approach (WGS report to EMI Council, April 1996)

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Information available on monetary aggregates and counterparts, January 1980-December 1996 (EMI, undated)

Available information on the balance sheets of the money-creating sector (MBSTF, 14 November 1997)

Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy (ECB Monthly Bulletin, February 1999) [especially annex on 1980-98 data]

The euro area after the entry of Greece (ECB Monthly Bulletin, January 2001)

The conversion of pre-1999 data into "euro"

Final opinion on the conversion of national historical nominal value series into a proxy for the euro (WGS, 13 May 1998)

The effective exchange rates of the euro (L. Buldorini, S. Makrydakis, C. Thimann; ECB Occasional Paper No 2, February 2002) [especially Annex 1]

Seasonal adjustment of euro area statistics

Task Force on Seasonal Adjustment: final report (WGs MBS/GES, February 2000)

Seasonal adjustment of monetary aggregates and HICP for the euro area (ECB, August 2000)

Seasonal adjustment (ECB, November 2003)

Legal preparations

Chapter 18 – The legal framework

Treaty establishing the European Community - Statutes of the EMI, of the ESCB and of the ECB (consolidated version, December 2002)

The single monetary policy in Stage Three – specification of the operational framework (EMI, January 1997) [contains a draft ECB Recommendation for a Council Regulation (EC) concerning the collection of statistical information by the ECB]

Council Regulation (EC) No 322/97 of 17 February 1997 on Community statistics

Draft ECB Recommendation for a Council Regulation (EC) concerning the collection of statistical information by the ECB – review for the attention of the [EMI] Council following the consultations carried out in 1997 (WGS, December 1997)

Council Regulation (EC) No 2531/98 of 23 November 1998 concerning the application of minimum reserves by the European Central Bank

Council Regulation (EC) No 2532/98 of 23 November 1998 concerning the powers of the European Central Bank to impose sanctions

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank

Legal instruments of the ECB (ECB Monthly Bulletin, November 1999)

The law of the ECB (C. Zilioli and M. Selmayr, Hart Publishing, 2001)

Chapter 19 - ECB legal instruments at the start of Stage Three

Regulation concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/1998/16)

Guideline concerning certain reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics (ECB/1998/NP27)

Guideline on the statistical reporting requirements of the ECB in the field of balance of payments and international investment position statistics (ECB/1998/17) [the companion Recommendation is ECB/1998/NP21]

Guideline concerning the common rules and minimum standards to protect the confidentiality of the individual statistical information collected by the ECB assisted by the national central banks (ECB/1998/NP28)

Guideline on the legal framework for accounting and reporting in the ESCB (published as ECB/2000/18)

Legal instruments of the ECB (ECB Monthly Bulletin, November 1999)

The law of the ECB (C. Zilioli and M. Selmayr, Hart Publishing, 2001)

The IT infrastructure

Chapter 20 – Data exchange, storage and dissemination

First proposals relating to statistics in Stages Two and Three and development of work - Other matters: the EMI and BIS Data Bank Services – organisational issues (WGS report to Committee of Governors, December 1993)

Exchange of statistical information facility for the ESCB (WGS report to EMI Council, April 1996)

The organisational framework

Chapter 21 – Competence, cooperation and organisation

Council Decision of 25 February 1991 establishing a Committee on Monetary, Financial and Balance of Payments Statistics (91/115/EEC)

Communication on the evolution of the Community statistical system (European Commission, 21 February 1992)

Opinion of the Committee of Governors on the draft Statistical Programme of the European Communities 1993-97 (Committee of Governors, 16 April 1992)

Opinion on a reform of the Committee on Monetary, Financial and Balance of Payments Statistics (report of a Groupe de Réflexion, 10 December 1992)

The statistical field of competence of the ESCB	)	three WGS reports to the EMI
Statistical co-operation at the Community level in Stage Three	)	Council, July 1995
Organisational framework for the statistical function of the ESCB	)	

Memorandum of Understanding concerning financial and economic statistics for Stage Three of EMU between the EMI Statistics Division and Eurostat (July 1995)

Council Regulation (EC) No 322/97 of 17 February 1997 on Community statistics

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank

Chapter 22 – Publication policy

Treaty establishing the European Community – Statute of the ESCB and of the ECB (consolidated version, December 2002) [especially Article 15]

Organisational framework for the statistical function of the ESCB (WGS report to EMI Council, July 1995)

The statistical requirements for Monetary Union (EMI booklet, July 1996)

Guideline concerning certain reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics (ECB/1998/NP27) [especially Article 1.7]

Common understanding on the computation and publication of national competitiveness indicators (ECB, 17 June 1999)

PART B   Enhancements to euro area statistics, 1999-2003

Chapter 23 – Introduction and overview of Part B

Availability and quality of data to meet statistical requirements in Stage Three (STC report to Governing Council, May 1999)

Data availability and quality to meet the statistical requirements of the ECB (STC report to Governing Council, December 1999)

Statistical information collected and compiled by the ESCB (ECB, May 2000)

Assessment of quality and availability of statistics to meet the ECB's requirements – July 2000 – overview (STC report to Governing Council, July 2000)

Overview assessment of quality and availability of statistics to meet the ECB's requirements – July 2000-June 2001 (STC report to Governing Council, July 2001)

Assessment of quality and availability of statistics to meet the ECB's requirements – July 2001-June 2002 (STC report to Governing Council, July 2002)

Assessment of quality and availability of statistics to meet the ECB's requirements (DGS, 18 November 2003)

Replacing or reinforcing short-term approaches

Chapter 24 – MFI interest rates

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Retail bank interest rates (ECB Monthly Bulletin, January 1999, Table 2.8) [cautionary footnote]

Regulation concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18)

Enhancements to MFI balance sheet and interest rate statistics (ECB Monthly Bulletin, April 2002)

Manual on MFI interest rate statistics – Regulation ECB/2001/18 (ECB, October 2003)

New ECB statistics on MFI interest rates (ECB Monthly Bulletin, December 2003, Box 2)

Chapter 25 – Securities issues

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

New securities issues statistics (ECB Monthly Bulletin, November 1999, Box 2)

Recent improvements in securities issues statistics (ECB, Monthly Bulletin, January 2003, Box 2)

Guideline concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics: Annex XIX - Statistics on securities issues; reporting instructions for the compilation of statistics following a short-term approach (ECB/2003/2)

Chapter 26 – Non-monetary financial intermediaries

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community [especially paras. 2.32-2.67]

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank

New ECB statistics on euro area investment funds (ECB Monthly Bulletin, January 2003, Box 3)

Guideline concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics: Annex XVIII - Statistics on other financial intermediaries except insurance corporations and pension funds; reporting instructions for the compilation of statistics following a short-term approach (ECB/2003/2)

Chapter 27 –International investment position

Balance of payments manual, 5th edition (IMF, 1993)

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Report of the Task Force on Portfolio Investment (WGBP&ER, 22 September 1999)

International investment position of the euro area: methodological note (ECB Monthly Bulletin, December 1999, Box 9)

Statistical treatment of the Eurosystem's international reserves (ECB, October 2000)

Report of the Task Force on Portfolio Investment Collection Systems (ECB, June 2002)

Enhanced compilation of the euro area international investment position statistics for the 1999-2001 period (ECB Monthly Bulletin, December 2002, Box 9)

Guideline on the statistical reporting requirements of the ECB in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/2003/7) [especially Annex I and Annex II Tables 3-4]

Accession countries: balance of payments/international investment position statistical methods (ECB, May 2003)

European Union balance of payments and international investment position statistical methods (ECB, November 2003)

Report of the Task Force on Foreign Direct Investment (Eurostat/ECB, March 2004)

Towards a complete set of accounts

Chapter 28 – Monetary Union Financial Accounts

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Monetary Union Financial Accounts – feasibility study (report of a group mandated by WGS, April 1997)

National quarterly financial accounts (papers prepared by task force members and staff of the Board of Governors of the Federal Reserve System, June 1997-January 1998) (MUFATF, 10 November 1998) [includes paper on EMI users' requirements]

Valuation of unquoted shares and other equity (MUFATF, 27 November 1998)

Central bank uses of financial accounts (papers presented at ECB seminar, 22 November 1999)

Monetary and financial statistics manual (IMF, 2000)

Characteristics of corporate finance in the euro area (ECB Monthly Bulletin, February 2001)

Financing and financial investment of the non-financial sectors in the euro area (ECB Monthly Bulletin, May 2001)

Saving, financing and investment in the euro area (ECB Monthly Bulletin, August 2002)

Guideline on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2002/7)

Financing and financial investment of insurance corporations and pension funds in the euro area (ECB Monthly Bulletin, March 2003, Box 2)

The relationship between intermediated and debt securities financing of non-financial corporations in the euro area (ECB Monthly Bulletin, October 2003, Box 2)

Recent developments in financial structures in the euro area (ECB Monthly Bulletin, October 2003)

Developments in the debt financing of the euro area private sector (ECB Monthly Bulletin, November 2003)

Quarterly financial accounts – quality report and derogation review (DGS report to Governing Council, November 2003)

Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004 on quarterly financial accounts of general government

Chapter 29 - The balance of payments/international investment position and quarterly financial accounts

Data availability with respect to liquid assets excluded from M3 (WGMBS, 16 April 2002)

Guideline on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2002/7)

The “rest of the world” in the Monetary Union Financial Accounts, and the development of data from the balance of payments and the international investment position (WGs BP&ER/MUFAs, 12 March 2003)

Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/2003/7)

Chapter 30 – Annual and quarterly accounts of general government

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

Commission Regulation No 264/2000 of 3 February 2000 on the implementation of Council Regulation (EC) No 2223/1996 with respect to short-term public finance statistics

Commission Regulation (EC) No 1500/2000 of 10 July 2000 implementing Council Regulation (EC) No 2223/1996 with respect to general government expenditure and revenue

Requirements of the European Central Bank in the field of general economic statistics (ECB, August 2000)

Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96 (implemented by Commission Regulation (EC) No 995/2001)

Regulation (EC) No 2558/2001 of the European Parliament and of the Council of 3 December 2001 amending Council Regulation (EC) No 2223/96 as regards the reclassification of settlements under swap agreements and under forward rate agreements

Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002 on quarterly non-financial accounts for general government

Fifth progress report on the implementation of the Monetary Committee’s report (EFC, 18 February 2003)

Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004 on quarterly financial accounts of general government

Opinion of the ECB on a draft of the above (CON/2003/12, July 2003)

Chapter 31 – Quarterly sectoral accounts

Requirements of the European Central Bank in the field of general economic statistics (ECB, August 2000)

Action Plan on EMU statistical requirements (European Commission (Eurostat) in close collaboration with the European Central Bank, September 2000)

A system of quarterly European accounts for institutional sectors: a European users' vision (DGS paper for CMFB, June 2001)

Joint report of the Council and the Commission on eurozone statistics and indicators (February 2003) (incorporates Communication of the Commission to the European Parliament and the Council "Towards improved methodologies for eurozone statistics and indicators", November 2002)

Fifth progress report on the implementation of the Monetary Committee's report (EFC, 18 February 2003)

The "rest of the world" in the Monetary Union Financial Accounts, and the development of data from the balance of payments and the international investment position (WGs BP&ER/MUFAs, 12 March 2003)

Opinion of the European Central Bank at the request of the Council of the EU concerning a proposal for a regulation of the European Parliament and of the Council on the compilation of quarterly non-financial accounts by institutional sector (CON/2004/4, February 2004)

Other needs for improvement in the light of experience

Chapters 32-33 – Extensions to MFI balance sheet statistics; Valuation adjustments

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy (ECB Monthly Bulletin, February 1999)

Use of flows statistics in analysis of monetary data (ECB Monthly Bulletin, April 1999, Box 1)

The balance sheets of MFIs of the euro area in early 1999 (ECB Monthly Bulletin, August 1999)

MFI loans to the non-financial private sector broken down by sector, type and original maturity (ECB Monthly Bulletin, October 1999, Box 1)

The structure of MFI loans to the non-financial sector in the third quarter of 1999 (ECB Monthly Bulletin, January 2000, Box 1)

Issues arising from the emergence of electronic money (ECB Monthly Bulletin, November 2000)

The derivation and use of flow data in monetary statistics (ECB Monthly Bulletin, February 2001, Box 1)

MFI balance sheet statistics: final reporting requirements (stocks and flows) (STC, 15 June 2001)

MFI balance sheet statistics: reporting requirements for shares and other equity by sub-sector (STC, 21 September 2001)

Regulation concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13)

Enhancements to MFI balance sheet and interest rate statistics (ECB Monthly Bulletin, April 2002)

Guidance notes to Regulation ECB/2001/13 on the MFI balance sheet statistics (ECB, November 2002)

Regulation amending Regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2002/8) [concerns residency of holders of MMF shares/units]

Regulation amending Regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2003/10) [concerns reporting of business with acceding countries, and changes in minimum reserves]

Guideline concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics (ECB/2003/2)

Enhancements to euro area monetary statistics (ECB Monthly Bulletin, September 2003, Box 1)

Recent developments in financial structures in the euro area (ECB Monthly Bulletin, October 2003) [includes Box on securitisation]

Chapter 34 – Non-resident holdings of monetary instruments

Measurement issues related to the inclusion of negotiable debt instruments in euro area M3 (ECB Monthly Bulletin, May 2001, Box 1)

Monetary developments in the euro area [ECB press releases of the April 2001 and the October 2001 data, presenting a two-stage adjustment to M3]

Adjustment to M3 for holdings of negotiable instruments by non-residents of the euro area (ECB Monthly Bulletin, November 2001, Box 1)

Regulation amending Regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2002/8)

Supplementary guidance notes concerning statistics on the holders of MMF shares/units (ECB, May 2003)

Deriving geographical and sectoral holdership structures for negotiable instruments from periodical reports of security settlement systems (F. Mayerlen, ECB, Bulletin of the International Statistical Institute, 54th session, August 2003)

Chapter 35 – A monetary presentation of the balance of payments

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Reassessing the scope of the euro area monthly balance of payments (BP&ER Division, ECB, 6 September 2000)

Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/2003/7; companion Recommendation addressed to the Irish CSO and the Ufficio Italiano dei Cambi is ECB/2003/8) [includes requirement for an MFI/non-MFI split in direct, portfolio and "other" investment]

Monetary presentation of the euro area balance of payments (ECB Monthly Bulletin, June 2003, Box 1)

Chapter 36 – General economic statistics

Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

Statistical requirements for Stage Three of Monetary Union (implementation package) (working document intended for the use of central banks, banking associations and others involved in statistical preparations for Stage Three) (EMI, July 1996)

Council Regulation (EC) No 1165/98 of 4 June 1998 concerning short-term statistics

Non-financial statistics supporting the analysis of euro area-wide economic developments (ECB Monthly Bulletin, January 1999, Box 5)

Council Regulation (EC) No 530/1999 of 9 March 1999 concerning structural statistics on earnings and labour costs

The role of short-term indicators in the analysis of price developments in the euro area (ECB Monthly Bulletin, April 1999)

Monitoring wage and labour cost developments in the euro area (ECB Monthly Bulletin, October 1999, Box 3)

Requirements of the European Central Bank in the field of general economic statistics (ECB, August 2000)

Price and cost indicators for the euro area: an overview (ECB Monthly Bulletin, August 2000)

Action Plan on EMU statistical requirements (European Commission (Eurostat) in close collaboration with the European Central Bank, September 2000)

Assessment of general economic statistics for the euro area (ECB Monthly Bulletin, April 2001)

Euro area exports and imports of goods according to national accounts and external trade statistics (ECB Monthly Bulletin, December 2001, Box 5)

Measurement issues in European consumer price indices and the conceptual framework of the HICP (ECB/CEPR, July 2002)

Residential property prices in the euro area (ECB Monthly Bulletin, October 2002, Box 3)

Short-term statistics on services (SPC/CMFB, December 2002)

Fifth progress report on the implementation of the Monetary Committee's report (EFC, 18 February 2003)

Joint report of the Council and the Commission on eurozone statistics and indicators (February 2003) (incorporates Communication of the Commission to the European Parliament and the Council "Towards improved methodologies for eurozone statistics and indicators", November 2002)

Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index

Structural factors in the EU housing markets (ECB, March 2003)

Developments in general economic statistics for the euro area (ECB Monthly Bulletin, April 2003)

A comparison of the available labour cost indicators in the euro area: conceptual differences and their behaviour in the period 1999-2002 (ECB Monthly Bulletin, June 2003, Box 4)

New flash estimates of quarterly real GDP for the euro area (ECB Monthly Bulletin, June 2003, Box 5)

Developments in the euro area's international cost and price competitiveness (ECB Monthly Bulletin, August 2003)

Progress and gaps in euro area short-term statistics (ECB Monthly Bulletin, September 2003, Box 7)

Residential property price developments in the euro area (ECB Monthly Bulletin, December 2003, Box 5)

New orders in euro area manufacturing industries (ECB Monthly Bulletin, December 2003, Box 7)

Chapter 37 – Macro-prudential and structural banking indicators

Treaty establishing the European Community (Article 105(5)) (consolidated version, December 2002)

Macroprudential indicators of financial system soundness (IMF Occasional Paper, April 2000)

Guideline concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics: Annex VI - Structural statistical indicators – reporting scheme and compilation instructions (ECB/2003/2)

EU banking sector stability (ECB, November 2003)

Structural analysis of the EU banking sector, year 2002 (ECB, November 2003)

Chapter 38 – International role of the euro

The international role of the euro (ECB Monthly Bulletin, August 1999)

Reviews of the international role of the euro (ECB, September 2001, December 2002, December 2003)

Merits and costs of the compilation of a currency breakdown for some items of the euro area balance of payments/international investment position (STC, 26 February 2003)

European Parliament Resolution concerning the international role of the euro (May 2003)

The international role of the euro: main developments since the inception of Stage Three of Economic and Monetary Union (ECB Monthly Bulletin, November 2003)

Opinion of the ECB on a draft European Parliament and Council Regulation on Community statistics concerning the balance of payments, international trade in services and foreign direct investment (CON/2003/26, December 2003)

Strengthening the infrastructure

Chapter 39 – Balance of payments data collection

The measurement of international transactions in the European context in 7-10 years' time (CMFB, 25 June 1999)

Joint ECB/Commission (Eurostat) overview on issues relating to balance of payments reporting (ECB, 20 April 2000)

Opinion of the CMFB [on proposals for relieving cross-border transactions of balance of payments reporting, and prospective changes in balance of payments and international investment position reporting systems] (CMFB, 30 January 2001)

Report to the EFC on balance of payments issues (CMFB, 9 July 2001)

Regulation (EC) No 2560/2001of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro

Opinion of the European Central Bank on a draft of the above (CON/2001/34, October 2001)

Task Force on Portfolio Investment Collection Systems (WGBP&ER, published June 2002)

Task Force on Portfolio Investment Income (WGBP&ER, published August 2003)

Chapter 40 – Securities statistics and the Centralised Securities Database project

Portfolio investment flows harmonisation: ISIN; Centralised Securities Database (FFSTF, October 1997, with addendum, April 1998)

Task Force on Portfolio Investment (WGBP&ER, 22 September 1999)

Task Force on Portfolio Investment Collection Systems (WGBP&ER, published June 2002)

Chapter 41 – Extension of the legal basis for ECB statistics

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank

Regulation concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13)

Regulation amending Regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2002/8) [concerns residency of holders of MMF shares/units]

Regulation amending Regulation ECB/2001/13 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2003/10) [concerns reporting of business with acceding countries, and changes in minimum reserves]

Regulation concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18)

Guideline concerning certain statistical reporting requirements of the European Central Bank and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics (ECB/2003/2)

Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/2003/7; companion Recommendation addressed to the Irish CSO and the Ufficio Italiano dei Cambi is ECB/2003/8)

Guideline on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2002/7)

Guideline concerning the common rules and minimum standards to protect the confidentiality of the individual statistical information collected by the European Central Bank assisted by the national central banks (ECB/1998/NP28)

Guideline on the legal framework for accounting and financial reporting in the ESCB (ECB/2002/10)

Chapter 43 – Assessing the merits and costs of new or substantially changed statistical requirements

Council Regulation (EC) No 322/97 of 17 February 1997 on Community statistics

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank

Justifying new statistical requirements: merits and costs (STC report to Governing Council, May 2000)

Review of the merits and costs procedure (STC, 17 October 2002)

Merits and costs of the compilation of a currency breakdown for some items of the euro area balance of payments/international investment position (STC, 26 February 2003)

Chapter 44 – Some aspects of quality

Data quality assessment framework for balance of payments statistics (IMF, June 2001)

Quality of statistics: a sketch of some remaining issues (S. Keuning/S. Algera, Statistics Netherlands, May 2002)

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards

IFC conference, Basel, August 2002 – workshop on monetary and financial statistics and international accounting standards (Chairman's summary, M. Stubbe, ECB, August 2002)

Guideline on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2002/7) [especially Article 7]

Guideline on the statistical reporting requirements of the European Central Bank in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/2003/7) [especially Article 6]

Interim report on the quality assessment of balance of payments and international investment position statistics (Eurostat/ECB TF on Quality, October 2003)

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Chapter 46 – Non-participating Member States and ECB statistics

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Chapter 47 – Further plans

Statistics: medium-term prospects (S. Keuning, ECB, February 2003)

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