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Final Report on the Statistics Directorate Balance of Payments Activity for the 2004 Quality Reviews of Existing Activities

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Introduction and general remarks

1. This report sets out the findings of the Statistics Directorate quality review of balance of payments statistics activity and the conclusions of the quality review meeting on 9 May 2005.

2. The Statistics Directorate (STD) Balance of Payments (BOP) activity is twofold. Firstly and most importantly it involves the compilation and maintenance of the BOP Dataset, which primarily aims to provide OECD analysts with a timely and internationally comparable *summary* set of the main balance of payments data items for OECD countries. Secondly there is a coordination of OECD interests in Balance of Payments (excluding foreign direct investment (FDI) methodology, where the Directorate for Financial and Enterprise Affairs (DAF) leads), and representation of these in the context of methodological development work, largely related to the work of the IMF Balance of Payments Committee. This quality review report focuses mainly on the BOP dataset activity.

3. The BOP is a complex dataset, which provides a set of balance of payments components covering trade in goods and services, other components of current account, capital account, direct investment and other main components of the financial account. The STD BOP data are based on Member countries' and the European Central Bank's published balance of payments data, compiled and presented according to the principles of the IMF's Balance of Payments Manual 5th edition (BPM5).

4. The BOP data are compiled, stored and published in the MEI database. Since the dataset is a subset of the MEI database, discussion in this report of IT needs and dissemination is rather brief as it would simply reflect the case of the MEI database as a whole, which is the subject of a separate review. Separately from MEI, customised reports are generated approximately quarterly on foreign direct investment, which are provided at the request of DAF, to inform DAF analysts and the Investment Committee. Another set of customised reports on trade in goods and services are generated quarterly for the International Trade Quarterly Press Release supplementing merchandise volume data aggregates. Finally tables on trade in services and current account balances have been generated for publication in the new OECD Factbook. There is a question whether there would be any advantage if parts of the dataset were to be published more widely, for example on Internet.

5. The BOP dataset is compiled and managed by the Trade and Structural Business Statistics Section (TASS) of the Prices and Structural Statistics (PASS) Division of STD with IT support from SIMS Division and under the coordination of STES Division who manage the MEI Database. The work was transferred from the former MEI Division at the end of 2002 to the former NAES Division as part of a major reorganisation of STD involving a break-up of MEI series on a subject - rather than the previous country - basis. This organisation on a subject basis has led to some efficiency gains and an increase in the coherence and comparability between countries in the BOP data set over the past two years. The BOP work moved on to PASS in a smaller reorganisation in November 2004.

6. It is worth remarking that other BOP data are collected and compiled in OECD, for example, detailed international trade in services statistics (ITIS) are collected and published as a separate activity in STD/PASS, as are detailed FDI statistics in DAF. These detailed ITIS and FDI data collections are not in the scope of this quality review. However, from an organisational perspective, the combination in the same section of BOP work and trade in services work brings some synergies and cross-fertilisation of expertise.

7. The coordination of OECD BOP methodological work and interests currently centres on inputs to the revision of the IMF's BPM5 planned to be completed in 2008, and is done in coordination with those working on the SNA 1993 update, as well as updates of related statistical frameworks and manuals. One aim of the BPM5 revision is to improve its coherence with SNA.

8. The resource allocation in PASS for the BOP activity is approximately 1.2 persons (0.9B4 and 0.3A3).

The BOP dataset strengths and weaknesses against quality dimensions

1. Relevance

User needs and comments

9. The Economics Department (ECO) is an important user of the MEI balance of payments data. ECO requires timely quarterly data for the core BOP variables seasonally adjusted, where appropriate, for economic forecasting and analysis. ECO prefers seasonally adjusted series which sum to the annual total. MEI BOP data are used to update the ECO Analytical Database (ADB). A user survey in 2002 identified a priority set of variables and estimated that about 50% of ECO use (regarding ADB downloads) of MEI was BOP-related.

10. ECO, especially during their peak period economic forecasting rounds and for country studies, need relevant data updates within 24 hours of publication including all revisions. It has requested a more proactive and transparent updating process with a timetable. rather than the current monthly cycle of updates within the MEI round. The Quarterly National Accounts was cited as an example of good practice. ECO also request further improvements to data collection and management systems. ECO acknowledge that there have been important improvements in the quality and responsiveness of the BOP data service over the past few years.

11. DAF requires for the Investment Committee, or for publication, timely updates of quarterly FDI data including OECD totals.

12. The Directorate of Science Technology and industry (DSTI) are users of detailed annual balance of payments data especially foreign direct investment, and trade in goods and services and have advocated a unified OECD BOP database, separate from MEI. This would meet detailed annual data needs and take in the quarterly restricted data set to meet ECO needs. The aim would be greater coherence between various OECD BOP data sets. Monthly BOP data would stay in MEI under this proposal.

13. There is a general user interest in zone totals for certain BOP variables, e.g. trade in goods, trade in services and FDI flows.

14. STD TASS has an interest in quarterly trade in goods and services aggregates in volume terms, to complement the presentation of BOP current price trade series, in part for the STD Quarterly Trade Press Release.

15. Regular and frequent contacts with the main OECD users in ECO and DAF are maintained. Little specific information is known about external users of the BOP dataset apart from what is known about MEI users generally, which in turn is rather limited. The free BOP "Current Balance" table from the MEI was the 12th most popular item downloaded from the Statistics Portal in 2004 with about 12,000 downloads**.**

Coverage and core variables

16. Coverage of the dataset includes the 30 OECD Member countries plus the Euro Area, reported by the ECB. Frequency is quarterly, and for about half the countries (though not always for all variables) monthly. Coverage for most countries amounts to approximately 50 variables, which corresponds closely with needs that ECO have indicated to STD. Table 1 summarises coverage of variables and countries. It is a medium-term aim to expand the coverage of core variables to all OECD countries, where this is not already the case.

17. Before 2005 no BOP zone totals were generated within the MEI database. OECD, quarterly totals are generated in customised reports for the trade press release and FDI for DAF. The MEI Strategy Review has raised suggestions that there should be more priority for zone totals where they add value to the data, which we support.

18. Non-member countries BOP data are compiled for the MEI database by STES, having recently taken over the work from PASS, and these are not fully integrated in the BOP data presentation. The non-member country work is done separately and is outside the responsibility of this activity. There is also an issue whether the Big 6[1] Non-member countries become more integrated in the BOP dataset and whether PASS takes over Big 6 work from STES. This latter suggestion is proposed by STES, but taking over Big 6 BOP work could only be achieved with some (small) additional resource for the BOP work. A counter argument is that Big 6 data collection is best kept together as it poses some specific problems to OECD, different to those for member countries. It is our view that PASS and STES should seek to coordinate more over Big 6 BOP data presentation.

[1] Big 6 = China, India, Indonesia, Brazil, Russia and South Africa

Table 1

Quarterly Balance of Payments Core Variables

Current Account		***Countries in BOP dataset***
Goods credits	national currency or $	31
Goods debits	national currency or $	31
Goods balance	national currency or $	31
Goods credits nsa	national currency	24
Goods debits nsa	national currency	24
Goods balance nsa	national currency	24
Goods credits sa	national currency	26
Goods debits sa	national currency	26
Goods balance sa	national currency	26
Goods credits nsa	US $	29
Goods debits nsa	US $	29
Goods balance nsa	US $	29
Goods credits sa	US $	31
Goods debits sa	US $	31
Goods balance sa	US $	31
Services credits	national currency or $	31
Services debits	national currency or $	31
Services balance	national currency or $	31
Services credits nsa	national currency	24
Services debits nsa	national currency	24
Services balance nsa	national currency	24
Services credits sa	national currency	25
Services debits sa	national currency	25
Services balance sa	national currency	25
Services credits nsa	US $	29
Services debits nsa	US $	29
Services balance nsa	US $	29
Services credits sa	US $	28
Services debits sa	US $	28
Services balance sa	US $	28
Income credit nsa	national currency or $	30
Income debit nsa	national currency or $	30
Income balance nsa	national currency or $	30
Income credit sa	national currency or $	29
Income debit sa	national currency or $	29
Income balance sa	national currency or $	29
Transfers credits nsa	national currency or $	9
Transfers debits nsa	national currency or $	9
Transfers balance nsa	national currency or $	31
Transfers balance sa	national currency or $	30
Current balance nsa	national currency	26
Current balance sa	national currency	25
Current balance nsa	US $	31
Current balance sa	US $	30
Capital and Financial Account		
Capital balance	national currency or $	30
Cap and fin balance inc reserves	national currency or $	30
Direct investment abroad	national currency or $	30
Direct investment in reporting economy	national currency or $	31
Portfolio investment assets	national currency or $	30
Portfolio investment liabilities	national currency or $	30
Financial derivatives net	national currency or $	21
Other investment assets	national currency or $	30
Other investment liabilities	national currency or $	30
Change in reserve assets	national currency or $	31
Financial balance inc reserves	national currency or $	31
Net errors and omissions	national currency or $	31

N.B. Euro Area is counted as a country for this analysis; sa = seasonally adjusted; nsa=not seasonally adjusted

19. Another issue is whether more BOP detail should be collected quarterly, although currently we see little obvious demand. There would be also a resource question to be addressed if BOP dataset detail were to be expanded.

2. Accuracy

20. The accuracy of balance of payments data in general is monitored by the IMF in the annual reports of the Balance of Payments Committee. The item net errors and omissions is also a very crude overall indicator of accuracy. Generally trade data for goods and services are regarded as relatively the most reliable BOP components in overall terms.

21. Regarding the STD BOP data these are subject to semi-automatic data validation checking for changes to historic data at the time of data capture, multiple automatic internal consistency checks within the database, and extensive visual checks at the time of publication. Data items failing any of these checks are investigated further with checks against the national websites and other sources such as IMF Balance of Payments Statistics database. If discrepancies cannot be resolved queries are sent to countries. At peak periods lack of resource can slow down the manual verification and checking process. It would save time if it were possible to find a way to perform the internal database consistency checks before the data are definitively downloaded, and previous data are overwritten. The data collection procedures for a very few countries sometimes leave some uncertainty as to whether revisions have been fully captured. The accuracy of the STD BOP dataset is felt to be generally good.

3. Credibility

22. The credibility of STD BOP data benefits from the accuracy and consistency checking procedures undertaken, but more generally has benefited over many years from IMF efforts regarding the Balance of Payments Manual, The BOP Compilation Guide, The BOP Textbook, IMF training for compilers, and the IMF DQAF quality reviews in countries. These combined efforts have achieved an enhanced degree of international comparability. In Europe additional comparability has been achieved by the comparative methodological work of ECB and Eurostat. The STD presentation of BOP data conforms to the norms set out in the BPM5.

4. Timeliness

23. The timeliness of the STD BOP dataset is of crucial importance to OECD users and consequently to its relevance. Updating is done for all countries on a monthly cycle. For BOP data which are either supplied monthly or quarterly, it means that all data are updated at worst within one month of publication or of the countries supplying data to OECD. Sixteen countries supply at least some monthly BOP data to OECD. We know that a few more countries publish some monthly data and all Euro Area countries supply monthly BOP estimates to ECB. So the potential is there for monthly data to be expanded if this were seen as a priority. National publication dates are monitored on the IMF SDDS web pages.

24. For G7 countries a particular effort is made to update the BOP dataset within at worst seven days of publication or receipt of data at OECD. Data collection techniques can affect timeliness. Data are collected with the assistance of SIMS, and as for most MEI themes from web queries, regular emails with electronic files from countries, regular interrogations of national databases, DRI data, and in one case a monthly CD-ROM sent through the post. Web queries are in general extremely timely and efficient means of data collection, but it is our experience that they need quite frequent maintenance whenever national websites are changed even in minor ways. SIMS provides the maintenance and in general an excellent service, but the level of SIMS resource allocated to MEI/BOP data collection can be critical.

25. It is self-evident that data cannot be updated before countries make it available. In overall terms all countries supply quarterly BOP data between approximately 30 and 120 days after the end of the reference period. After 100 days 90% of countries, including the largest ones, have reported quarterly data and it is on the MEI database. This enables OECD totals to be estimated for those variables such as trade and FDI at around 100 days after the quarter. There is a possibility for a small improvement in the OECD component of timeliness if that were identified as a priority. The timeliness of the STD BOP dataset is currently sufficiently good to justify its relevance and existence. However there is a threat to its comparative advantage from other sources as technology evolves e.g. accessibility of national web sites, IMF who supply much more detailed quarterly BOP datasets, but currently several months less timely, and private sector sources such as Bloomberg, DRI etc

5. Accessibility

The STD BOP dataset is broadly as accessible as other MEI data, both internally and externally, and needs to be evaluated in that wider context. Dissemination is almost entirely through MEI mechanisms. In some respects MEI gives BOP data only a very basic profile at present. In addition OECD quarterly totals for trade in goods and trade in services are generated in customised reports for the trade press release and FDI quarterly data for DAF. BOP data provide a well populated hypercube for the MEI database. If the BOP data set were to be greatly expanded, this would raise a question of whether MEI would continue to be the right place to host it, however only modest 'tidying up' expansions are envisaged at present.

6. Interpretability

26. The interpretability of BOP data is greatly enhanced by the standards set by IMF, which are almost entirely adopted by OECD member countries. OECD Metadata focuses on differences from the IMF standards. Relatively detailed BOP metadata is supplied by countries to IMF, and for Euro Area countries to ECB, and is published by IMF and ECB. MEI metadata on BOP is very summary and focuses on significant discrepancies from the IMF BPM5 standards. While this summary metadata is maintained, it is doubtful whether a significant expansion of OECD BOP metadata collection could be justified as it would duplicate IMF activities. However OECD BOP metadata could be and should be relatively easily enhanced to make greater use of existing metadata at national websites, IMF and or ECB and opportunities provided by Metastore.

Seasonal adjustment

27. A main user requirement for economic modelling and interpretability of time series is that seasonal variations, where they exist, which is mainly in the current account, are removed from the data. About half the member countries publish and provide OECD with seasonally adjusted series, and it is the current policy to publish in the STD BOP dataset data consistent with those that countries publish. For those countries that do not seasonally adjust BOP series, STD makes the adjustments using X12 ARIMA and Fame routines. In such cases it is the policy to try to meet ECO requirements by forcing the adjusted quarterly totals to equal the unadjusted annual total. This latter condition is not met by some countries who make their own adjustments. Seasonal adjustment of relevant current account series undoubtedly adds value to the OECD BOP dataset.

Exchange rates

28. In order to convert data received in national currency series to dollars, series are converted at the "MEI average daily exchange rate". For monthly series this is the average for the month concerned. For quarterly series it is the average rate for the quarter, and for annual series it is the average rate for the year.

A consequence of this method is that monthly converted dollar series do not add exactly to quarterly converted totals. Neither do quarterly converted series add exactly to annual converted totals. The MEI daily exchange rates are currently sourced from the OECD Economics Department monitoring of financial market data, but consideration is being given to source them from IMF rates. While BOP is a part of MEI it will use the standard MEI exchange rates.

7. Coherence

29. The coherence of the BOP dataset within itself is very high in practice as in principle the components of the dataset sum to zero. This check and other checks are carried out within the database. Similarly consistency across countries is relatively high because of the wide adoption of IMF BPM5 standards.

30. Regarding consistency over time, quality is more variable and depends on methodological breaks in series, possibly related to implementation of BPM5 standards, and the varying efforts countries have put into generating consistent back-series. Another factor is revision policies and how far back countries revise. Occasionally there can be a problem when countries revise back data without communicating it to OECD.

8. Cost-efficiency

31. The cost-efficiency of the BOP dataset activity has been significantly improved by the streamlining of data collection related to SIMS work and the development work since it became subject-based in strengthening the core set of variables, and introduction of more US Dollar series for the generation of OECD totals. The resource allocation from PASS of 0.9 B4 and 0.3 A3 for BOP dataset compilation, maintenance, development, responding to user requests, together with BOP methodological development coordination, is the strict minimum necessary and limits severely the speed of further developments. Given that this is a monthly cycle of work with about a thousand series in total updated a month on average from many sources, there are arrangements made within TASS for backup cover from a B5 in case of staff absence through holiday or sickness.

Opportunities

32. There are opportunities identified here to improve timeliness and coherence by strengthening coverage of core variables, improved quality checking, albeit in a limited way. Other opportunities have been raised in the MEI Strategy Review set out in the MEI Strategy Review in terms of increasing value added by development of zone totals and more integration of Big 6 data. STES's view is that for this to be most effective it would be better if PASS take responsibility for updating the big 6 BOP data. In PASS's view, this has to be weighed against the specificities of data collection for Big 6 countries, which so far has been dealt with in a country-specific, not a subject-specific approach.

33. There may be opportunities to provide a higher profile to the work by presenting balance of payments data as a separate dataset in OECD.stat and promoting customised sub-sets of the data on trade in goods and services and FDI for specific users.

34. A key question is whether monthly series or more detail in some areas should be pursued, and what would be the resource implications of that.

35. There are a certain amount of potential links between work on trade, trade in balance of payments, and trade in quarterly national accounts, both in terms of data maintenance and presentation, which could be investigated for improving the links, consistency and coordination. This includes the user interest in

presentation of quarterly trade aggregates in volume terms alongside the current price BOP trade aggregates.

Threats

36. The principal threats come from not meeting user and particularly ECO needs for detail, quality and timeliness, and not ensuring sufficient timeliness to beat the competitors in general. Here IMF activity must be regarded as an important factor. IMF provide links on their SDDS pages to the national BOP data, which allows instant access to these data, although the IMF BOPS database is at the time of writing significantly less timely than MEI. The OECD BOP dataset will need to continue to offer sufficient advantages, e.g. timeliness, coherence, added value, over others to continue to justify its existence.

Conclusions, recommendations and questions:

37. Within the current resource limits a number of priorities for improvement are identified as follows:

- It is proposed that the MEI BOP dataset adopts suggestions that have been raised in the MEI strategy review, to construct more zone totals, where appropriate e.g. for trade in goods and services and FDI.

- Work on further extending automatic data collection and management should be pursued including longer term SIMS developments of SDMX data exchange with G7 countries. The existing quality strategy should be strengthened to improve the coherence and consistency of the dataset, timeliness, strengthen coverage of core variables, the transparency of updating, coverage of revisions and automatic consistency checking.

- OECD BOP metadata should be reviewed and enhanced to make greater use of existing metadata at national level, IMF and or ECB and opportunities provided by Metastore [To be completed by end 2006].

- Opportunities to raise the profile of the OECD BOP dataset with further value added should be investigated, within MEI, with products separate from MEI in particular the availability of the BOP dataset to OECD.STAT, development of some BOP web pages, and through customised products for particular users.

38. There is no clear demand from analysts for more monthly series or more quarterly detail to be collected.

39. PASS should review with STES how the Big 6 Non-member countries BOP data could be made more coherent with the OECD data. The suggestion has been made that PASS take over responsibility for updating Big 6 BOP data, but such an option would have a resource implication. STES are currently reviewing their own work on Big 6 data collection.

40. The questions raised about whether to develop a unified OECD BOP database and of investigating the links between work on trade, trade in balance of payments, and trade in quarterly national accounts, both in terms of data maintenance and presentation, to improve consistency and coordination are considered beyond the scope of this review exercise.

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