

Recording euro currency in the balance of payments and the international investment position

Up until now, shortcomings in statistical capabilities have prevented cross-border cash transactions and their offsetting entries from being recorded in the balance of payments (and in the international investment position, or IIP). These transactions include cash taken by seasonal and foreign workers to their home countries and capital transactions settled in cash. Cash travel expenditure by German residents and shipments of euro banknotes abroad by the Bundesbank or German credit institutions used to be given special treatment. Although statistical data were available for both these variables, only one accounting entry used to be made, either in the services sub-account or in the "Other investment" item under external assets held by the domestic banking system.¹ A matching offsetting entry on the liabilities side of the Bundesbank's balance sheet (to depict the corresponding outflows of banknotes) was not recorded because these outflows would have provided a distorted picture of the overall impact of aggregate cross-border cash transactions over a longer-term horizon. Instead, they were recorded under the "Net errors and omissions" item.

However, cash outflows attributable to travel and shipments of euro banknotes have been exceptionally strong since the introduction of the euro, with an aggregate of €357½ billion, or just over 70% of the Bundesbank's total net issuance, having since migrated abroad. The cumulative net effect of travel-related cross-border cash transactions is estimated at €201 billion. On top of that, euro banknote shipments have amounted to a cumulative €156 billion since January 2002. The bulk of this figure – just under 75% – is likely to have made its way directly to countries outside the European monetary union, while just over a quarter ended up in other euro-area countries.

The scale and persistence of cash outflows were thus one of the factors behind the systematically positive "errors and omissions" which have been evident hitherto in Germany's balance of payments. These

amounted to an aggregate €247½ billion (prior to the recording of euro currency) between January 2002 and year-end 2014.

There are several reasons why the statistical records are now being adapted. The primary objective is to enhance the comparability of the statistical results provided by the different macrostatistical accounts at both the national and international level. As a case in point, Germany's financial accounts already take account of these transactions, as do some of the balance of payments statistics recorded by other euro-area countries, either because it was an ECB requirement or because it appeared worthwhile from a national perspective. Another contributory factor from a German vantage point is the fact that the systematically positive "errors and omissions" were making it increasingly difficult to interpret the statistical output. Additionally, it became increasingly clear in the meantime that the above sources of information could be used to implement a process that was suited to producing statistical data and which was also capable of painting a robust picture of foreign demand for euro currency² over a longer-term horizon, too.³

¹ Cash (and aggregate) travel expenditure abroad by residents is captured for both the rest of the euro area and for countries outside the European monetary union (EMU) by a household survey which the Bundesbank conducts as part of its balance of payments statistics. Furthermore, there are statistical sources that record shipments of euro banknotes by domestic credit institutions or by the Bundesbank to foreign banks. See also Deutsche Bundesbank, Recording cross-border cash transactions in the balance of payments, Monthly Report, March 2005, p 37.

² Total cash outflows would comprise both banknotes and coins. However, foreign demand for German-issued euro coins cannot be captured statistically, and its value is negligible relative to that of the banknotes in circulation. Hence, any external liabilities the German government may have in its capacity as an issuer of euro coins are not recorded as a separate item.

³ See also Deutsche Bundesbank, Foreign demand for euro banknotes issued in Germany, Monthly Report, January 2011, pp 29-41. It should be noted, by way of explanation, that the term "foreign demand" means the net issues which have migrated abroad; these issues are not, however, necessarily still in circulation abroad because other euro-area central banks may have taken them out of circulation in the meantime.

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€ billion



¹ Includes external liabilities resulting from cash issuance.
 Deutsche Bundesbank

The starting point for estimating cross-border cash transactions is the aforementioned set of statistics on travel and banknote shipments. The travel survey conducted on the Bundesbank's behalf also provides data on cash expenditure abroad by German business and holiday travellers in euro currency. By applying the share of cash transactions observed for residents (which can be extracted from these data) to German travel receipts as well, it is possible to estimate a net outflow of cash from the travel account. A figure for net banknote shipments, meanwhile, can be obtained directly from the Bundesbank's surveys. Both components amount, on aggregate, to a net outflow of cash, which is captured for the respective reporting period in the balance of payments.⁴ By adding up these flows over time, it is possible to calculate the total value of euro currency that has migrated abroad, on balance, since the beginning of 2002. This is the figure of €357½ billion mentioned earlier in this box, which is recorded as additional external liabilities of the Bundesbank in the IIP.⁵

The statistical recording of cross-border cash transactions is also closely related to the treatment of the items concerning banknotes in circulation in the Bundesbank's balance sheet, which takes account of the particular features of the European monetary union in terms of the issuance of banknotes within the Eurosystem.⁶

A distinction is made in the balance sheet between the banknotes in circulation⁷ – as per the banknote allocation key – and the liabilities resulting from the distribution of the euro banknotes in circulation within the Eurosystem.⁸ Hence, the external statistics for Germany need to record the following items.

- In Germany, the (estimated) volume of banknotes in circulation domestically is lower than the volume of banknotes in circulation as per the allocation key (€240½ billion).⁹ At year-end 2014, the difference thus represents foreign demand for banknotes issued in Germany (€89½ billion), which the Bundesbank

⁴ Specifically, it is captured under "Other investment" liabilities of the Bundesbank, in the currency and deposits item.

⁵ This item was first recognised in the IIP at the end of March 2015, when the statistical data as at the end of the fourth quarter of 2014 were published.

⁶ As a general rule, banknotes represent a liability for the central bank that issues them. In the European monetary union, euro banknotes are brought into circulation by the Eurosystem, that is, jointly by the ECB and the national central banks. The resulting liabilities are apportioned to the ECB and the national central banks of the Eurosystem in line with the banknote allocation key.

⁷ The national liabilities resulting from the banknotes in circulation are calculated for each national central bank by multiplying the banknote allocation key by the total circulation in the euro area. The banknotes in circulation are a variable that is defined by law but is nonetheless designed to reflect realistic economic circumstances.

⁸ Euro-area countries whose actual net issuance is lower than the volume in circulation as per the allocation key carry a corresponding item on the assets side of their balance sheet. By definition, the offsetting items of all the euro-area countries (including the ECB) balance each other out on aggregate.

⁹ Domestic circulation is estimated as the difference between net banknote issuance by the Bundesbank and foreign demand calculated as outlined above.

carries in its balance sheet as external liabilities from banknote issuance.

- Overissuance of banknotes: This is calculated as the actual German issuance of banknotes (€508½ billion at year-end 2014), less banknote issuance as per the allocation key. Calculated thus, overissuance amounted to €268 billion. This figure is recognised in the external statistics as external liabilities from deposits by other national central banks with the Bundesbank.

All in all, the aforementioned foreign demand for German banknote issuance at year-end 2014 therefore amounted to €357½ billion (2013: €329 billion). A net capital import of €28 billion is recognised in the balance of payments to reflect the year-on-year increase recorded in 2014.

On the whole, it can be said that incorporating cross-border cash transactions into the statistics has a major impact on the bal-

ance of payments and on Germany's external liabilities. It results in additional net capital imports being captured, reduces "errors and omissions" and boosts the analytical value of the balance of payments, besides significantly shrinking Germany's net external position.

There is no doubt that recording cross-border cash transactions in the statistics improves the consistency and international comparability of external statistics. That being said, it is also evident that external statistics are being stretched to their limits in the context of the European monetary union. Economically, the liabilities arising from banknote issuance ought to be allocated to the Eurosystem as a whole; in actual fact, they are apportioned among the individual euro-area countries according to uniform accounting rules, which statisticians are now looking to replicate as closely as possible.