

Recording cross-border cash transactions in the balance of payments

Due to the principle of double-entry accounting, the cross-border transactions recorded in the balance of payments should theoretically offset each other. As the two sides of a transaction are, however, derived from different sources, in practice discrepancies arise. These may be due to reporting errors, statistical reporting thresholds or problems related to the allocation to different time periods. Moreover, the changeover to the accruals principle for the accounting of interest income coupled with the absence for the time being of an offsetting entry in the financial account have also temporarily resulted in a balancing item as explained on page 32.

Another problem concerns cross-border cash transactions, for example cash carried by seasonal and foreign workers and in financial transactions.¹ The opportunities for using cash abroad have increased considerably as a result of the introduction of euro banknotes and coins. Cash transactions of this kind and their offsetting entries are not included in the balance of payments (and the international investment position) owing to insufficient possibility to record them statistically.

Statistical information is, however, available on two sub-sectors, namely foreign travel expenditure of German residents and the shipping of euro banknotes abroad.

- Statistics on German foreign travel expenditure are compiled partly by means of surveys.² The figures determined in this way are recorded as service expenditure in

¹ See Seitz, F., *The Circulation of Deutsche Mark Abroad*, Economic Research Group of the Deutsche Bundesbank, discussion paper 1/95, May 1995, and ECB, *Review of the international role of the euro*, January 2005, page 56 et

the balance of payments. The results of the surveys provide indications of the extent to which business and private travellers make payments abroad using euro banknotes.

- When German credit institutions or the Bundesbank send euro banknotes to foreign banks, their external balances increase by the amount of the countervalue. This change is recorded as a capital export in the balance of payments.

However, even for the statistically recorded sub-components mentioned, no offsetting entry is recorded under the Bundesbank's external liabilities as this would create a distorted picture of the overall impact of cross-border cash transactions in the longer term. Consequently, they are recorded under the position of statistically unclassifiable transactions (balancing item). The two sub-sectors described here are, nevertheless, currently quite substantial: in 2003, roughly €20 billion in cash was carried abroad by German residents; the figures available so far indicate a similarly high amount for 2004. If the proportions of travel expenditures are correspondingly applied on the income side, the net effect of cross-border cash transactions in foreign travel may have been an estimated €15 billion in both 2003 and 2004. The shipping of banknotes accounted for approximately €12 billion net in 2004. These figures should be taken into account when assessing the positive balancing item of €14 billion in 2004.

seq. — ² See Deutsche Bundesbank, German balance of payments in 2002, *Monthly Report*, March 2003, pp 53-67, particularly pp 60-61.