

TWINNING CONTRACT

BA 15 IPA SR 01 17

Support to the reform of the statistics system in Bosnia and Herzegovina



MISSION REPORT

Component 3: Balance of Payment and IIPs

Activity 3.6: Data sources, production and balancing of quarterly IIPs I

Mission carried out by
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List of Abbreviations

BHAS	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CBBH	Central Bank of Bosnia and Herzegovina
EC	European Commission
ECB	European Central Bank
ESS	The European Statistical System
ESCB	European System of Central Banks
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FIS	Institute for Statistics of Federation of Bosnia and Herzegovina
FISIM	Financial Indirect Services Indirectly Measured
IIP	International Investment Position
IMF	International Monetary Fund
MFI	Monetary Financial Institutions
MS	EU Member State
QIIP	Quarterly International Investment Position
RSIS	Institute for Statistics of Republika Srpska
RTA	Resident Twinning Adviser
ToR	Terms of Reference
UCP	Ultimate Controlling Parent

1. General comments

This mission report was prepared within the EU Twinning Project "Support to the reform of the statistics system in Bosnia and Herzegovina". It was the second mission to be devoted to Quarterly International Investment Position (IIP) within Component 3 of the project.

The purposes of the mission were:

- **Review of data sources**
- **Draft quarterly IIP table**
- **Methodology document**

The consultant would like to express his thanks to all officials and individuals met for the kind support and valuable information which they received during the stay in Bosnia-Herzegovina and which highly facilitated the work of the consultant.

This views and observations stated in this report are those of the consultant and do not necessarily correspond to the views of EU, BHAS, FIS, RSIS, CBBH, Statistics Denmark, Danmarks Nationalbank, INSEE, Statistics Finland and Croatian Bureau of Statistics.

2. Assessment and results

Review of data sources:

MS and CBBH experts have reviewed the following data sources:

- FDI compilation (MFI, other financial corporations and Non-financial enterprises)
- Monetary financial statistics (Central bank, MFI and other financial corporations)
- Annual trade credit for import/exports (payable/receivable)

Besides the reviewed sources, the Central Bank of Bosnia and Herzegovina (CBBH) uses the following data sources for their IIP statistic: Government financial statistics (GFS), CBBH monitoring/banking department, Bank of International settlement (BIS) for mirror statistics and International Transactions Recording System data (ITRS) for transactions on behalf of clients with non-residents. CBBH has developed a security database, but have not received any data for the database.

The FDI compilation covers most FDI enterprises, with a threshold at EUR 50.000 for participation. The compilation covers most of the breakdowns/dimensions that are necessary to comply with Eurostat's requirements for non-euro countries. The data on trade credits between group enterprises from the FDI compilation is reconciled with data on total trade credits from the Annual trade credit for import/export of goods where possible, and used to calculate non-FDI trade credits (residual).

Data from the quarterly MFI FDI compilation is reconciled with the Monetary and Financial statistics (MFS). The FDI MFI is broken down on fewer instruments compared to the MFS, but is collected with a breakdown by country that is necessary for the FDI statistic, and will be needed for the IIP. The MFS statistic has no country breakdown, but a higher level of detail on instruments/sectors.

Draft of Quarterly IIP table:

As a follow up on the action point from activity 3.5 CBBH presented their work on a QIIP table, where the IMF and Eurostat requirements were assessed and identified what was possible with the current collection, and what should be improved and/or extended to comply.

CBBH noted that the coverage of portfolio investment is incomplete due to the lack of security data for their security database (which has been built, but no data has been reported). They will continue the effort to get data for the database.

Breakdown by country is not available for all data.

Methodology document:

Following the action point from activity 3.5 to produce a methodology document for the quarterly IIP, the CBBH presented a note on the quarterly IIP statistic, describing the sources and methods used for this statistic.

The note both explains the conceptual definition and understanding of the standard components of the IIP according to IMF's Balance of Payments Manual Sixth Edition (BPM6) as well as the data sources and method for compilation of each component.

3. Conclusions and recommendations

It was concluded that

- Sources for production of quarterly International Investment Position (IIP) according to both Eurostat and IMF requirements are in place, except regarding geographical breakdown, distinction between Money-market funds (S123) and Investment fund (S124), portfolio investment, deposits on asset side and maturity on bonds.
- MS Expert has advised to split investment funds and money market funds to meet Eurostat requirements. CBBH Balance of Payments section will cooperate with MFS section on how to incorporate this in statistics.
- For most instruments and resident sectors data sources are available on a quarterly basis and estimates based on annual reported stocks and reported quarterly transactions for the remaining instruments (FDI equity and trade credits) seems to be sufficient.
- CBBH is in process of updating their reporting forms to include maturity breakdown for debt instruments and include financial derivatives. This will increase the number of requirements fulfilled.
- CBBH will look at the form for reporting FDI investment income, to investigate if the definition of revaluation gains/losses in the current form should be extended to include holding gains/losses and other changes in volume of assets, see IMF Balance of Payments Manual Sixth Edition (BPM6), § 11.44
- MS provided feedback on the methodological note for quarterly IIP. A few minor proposals to clarify estimation method, describe revision practice and elaborate on certain sources was discuss and agreed upon
- To include counterpart sector information for other investment to make the distinction between loans and deposit. Between Deposit-taking corporations all loans and deposits are to be classified as deposits and are both an IMF and Eurostat recommendation/requirements. This information is also relevant for the calculation of FISIM.
- in the *medium term* it should be considered to expand the collection of data for securities to make the split between equity (shares) and investment fund shares since this is a standard component in the BPM6
- it should also be considered to change the production system to a data base environment (data warehouse) in order to handle larger amounts of data. The increase in data in going from annual to quarterly compilation and the need for handling different data vintages would require fewer resources in a data base environment and increase quality. In the longer run, adding geographical breakdown will increase the amount of data even further.

- MS strongly recommend CBBH to continue the work to get data for the security database already developed by CBBH
- it should be considered to incorporate data requirements from IIP in other statistical areas, especially geographical breakdown, when these statistical systems/areas are changed
- Should increase focus on reporting and calculation of valuation changes in the existing compilation framework, broken down by exchange rate changes, price changes and other changes in volume since this is part of the quarterly demands by Eurostat/ECB. It helps to ensure quality of the total Balance of Payments and International Investment Position production (stock-flow-stock identity).
- Reporting of information on ultimate controlling parent. Eurostat plans to include FDI by directional principle as an addition to assets/liabilities principle in the forthcoming version of Vademecum and so UCP should be included. The work can build on the conclusions from the joint ESS/ESCB task force on Foreign Direct Investment and the pilot exercise done in first part of 2019.

Actions needed for moving forward as well as for preparing the next mission –add rows as needed.

Action	Deadline	Responsible person
Distinction between Money market funds (S123) and Investment funds (S124)		CBBH
Adjust forms collected by CBBH with respect to maturity (debt instruments) and instrument breakdown (Financial derivatives).		CBBH
Include counterpart sector for other investment		CBBH
Finalize the methodological note on quarterly IIP with MS input.		CBBH

Annex 1. Terms of Reference**Terms of Reference****EU Twinning Project BA 15 IPA ST 01 17****Component 3: Balance of Payment and IIPs****11 - 14 December 2018****Activity 3.6: Data sources, production and balancing of quarterly IIPs I****1. Mandatory results and benchmarks for the component****Mandatory results:**

- Quality criteria and quality reporting on balance payments statistics produced by 8th project quarter
- Quarterly international investment position statistics developed by 8th project quarter

Benchmarks:

- Quality criteria of balance of payment defined by 1st project quarter
- Draft quality report for balance of payment developed by 3rd project quarter
- Available data sources for quarterly international investment positions statistics identified by 4th project quarter
- Final quality report for balance of payment developed by 7th project quarter
- Methodological document for quarterly international investment positions statistics developed by 8th project quarter
- Consistency between quarterly and annual IIP performed by 8th project quarter
- First data on quarterly international investment position for selected years published by 8th project quarter

2. Purpose of the activity

- Follow up from the previous mission
- Prepared by BC (CBBH)
 - Sources of QIIP xls. Filled
 - Matching of IMF requirements and vade mecum reporting requirements
 - Draft QIIP table
 - Extend methodological note on annual IIP, quarterly estimation

Provided by MS experts

- Statistical systems (it)
 - Review of collected data
 - Strengthening of data sources
 - Treatment of missing data
 - Meetings with crucial data providers as needed
 - Development of quarterly IIPs incl. balancing annual and quarterly IIPs
 - Development of methodology document

3. Expected output of the activity

- Data reviewed
- Draft quarterly IIPs developed
- Methodology document drafted
- Input provided to the ToR of next activity

Annex 2. Persons met

Central Bank of Bosnia and Herzegovina (CBBH)

- Amir Hadžiomerađić, Head of Statistics and Publications Department
- Vedran Milisav, Head of BoP statistics section

MS Experts

- Robert Wederkinck, Danmarks Nationalbank
- Lasse Nørgård, Danmarks Nationalbank

Twinning Project Administration

- Katja Møller Hjeltvang, RTA
- Đemka Šahinpašić, RTA Assistant