

# International Accounts Data Needs: Plans, Progress, and Priorities

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BEA's International Accounts Directorate is responsible for preparing the nation's estimates of the international transactions accounts, international investment position, and operations of U.S. parent companies and U.S. and foreign affiliates, and for preparing analyses of major developments and problems in these areas.

In fulfilling this mission, BEA strives continually to improve its output, by producing estimates that are (1) more comprehensive, (2) more accurate, (3) more consistent with international standards (which themselves are updated regularly), and (4) that are most relevant to the needs of data users. The International Accounts Directorate is facing important challenges in each of these areas, and we would welcome advice from the Advisory Committee in helping to establish goals and priorities within and across areas. BEA believes it is important to make significant progress in every area, but it cannot make significant progress in all areas simultaneously. Work plans must be developed soon that focus on BEA's most pressing needs, and those areas where improvements may be readily accomplished.

To a large extent, BEA's data improvement efforts are driven by change – changing needs, changing economic conditions, and changing international standards. For example, BEA made major improvements to its data on international services in response to both

the apparent growth in the transactions and the need to support the Uruguay Round trade negotiations, which were the first multilateral negotiations to cover services. Informed by these same developments, international economic accounting standards for trade in services were refined, providing additional demands that necessitated a response. In the area of portfolio capital, growth in the volume of transactions conducted outside of established channels called for new approaches to data collection. To help cope with such phenomena such as electronic around-the-clock trading in foreign securities markets, reliance on international fund managers, direct foreign placements, and new financial instruments, internationally coordinated surveys and data exchanges with partner countries were instituted, to minimize duplication of effort and take advantage of the fact that data could sometimes be collected more naturally or economically by the country associated with a particular side of the transaction. With respect to statistical methodology, updated standards reflected in the fifth edition of the International Monetary Fund's Balance of Payments Manual have prompted BEA to undertake a variety of changes in the way the international accounts are structured and presented.

While BEA has made numerous improvements to the international accounts in recent years, several needs remain unmet. Among the more important ones are (1) to eliminate what appears to be a systematic understatement of exports of goods – needed both to improve estimates of GDP and to provide a more accurate picture of the nation's position in world markets; (2) to increase the frequency of data collection for trade in services – needed both to reduce revisions and to provide improved tracking of within-year

movements; and (3) to obtain data on new financial instruments, including financial derivatives and “short” positions. These and other data needs for the international accounts are discussed in the material that follows.

In considering the needs identified in this paper, it is important to bear in mind the institutional environment in which BEA operates and some of the constraints it faces. As with resources in general, the financial resources that can be devoted to Federal statistics are limited, and even though these can sometimes be expanded, the fact that others are competing for the same scarce resources makes it necessary to have a strong justification for increases and a good sense of priorities. BEA is also constrained by another type of budget – the Information Collection Budget, an artifact of the Paperwork Reduction Act which limits the reporting burdens that Government agencies can impose through information collections and requires justification for any increases. Finally, it is relevant to note that BEA is sometimes called upon to serve needs that are peripheral to its core mission of compiling the nation’s economic accounts, and if not accompanied by funding, these activities can divert resources and attention from this mission. A recent example of this in the international area involves compliance with the IMF’s Special Data Dissemination Standards. The United States has subscribed to the standards in order to provide leadership and encourage participation by countries in need of closer surveillance, but the additional data that must be produced will be of little value to the conduct of U.S. economic policy.

## Background

The U.S. international transactions accounts were first published in 1923 and predate the other U.S. economic accounts. Interest in international transactions is older still. Since the early debates between free-trade advocates and the mercantilist pamphleteers, economists, policymakers, and others have had an intense theoretical and empirical interest in the measurement of these transactions.

Over time, the available statistical information on international transactions has evolved in response to changes in concerns and changes in the structure and organization of the world economy. The mercantilists were interested in maintaining a positive trade balance as a means of accumulating financial wealth (gold), whereas the free-trade advocates were more concerned with realizing the gains from international trade and specialization. These topics could be broadly addressed with information on trade in major commodities and changes in stores of monetary gold. Many years later, under the Bretton Woods fixed-exchange-rate system that emerged following World War II, more comprehensive and detailed information and better analytical tools were needed to monitor forces on foreign exchange markets and gauge the need for policy intervention. In response, gaps in information were filled, and analytical work centered on the development of various "balances" that were intended as indicators of the sustainability of the nation's international payments position. During this period, capital movements tended to be regarded as accommodating flows that in large measure were passive consequences of autonomously

generated imbalances in trade flows. Interest in the capital account (now termed the “financial account”) was focused on the movements in official reserves needed to settle the imbalances and compensate for short-term disequilibria in foreign exchange markets.

In the 1970s, as the world moved to flexible exchange rates and as global capital markets became more highly integrated, a more balanced view of the current and capital accounts emerged. The two accounts came to be regarded as co-determined by trade flows, capital movements, and the exchange rate, rather than one account being a passive byproduct of the other. Under the regime of flexible rates, many of the indicators of payments equilibrium that had been designed under the Bretton Woods system lost their relevance, fell into disuse, and ultimately were abandoned.

As trade and investment flows expanded and globalization of international business became a reality, domestic monetary and regulatory policy could no longer focus on domestic markets alone, but increasingly had to take into account foreign developments as well. Phenomena such as the recycling of petrodollar surpluses by oil-producing countries in the wake of the quadrupling of crude-oil prices in the 1970's and the surge in direct investment from Japan in the 1980's in response to that country's large imbalance between domestic saving and investment provided convincing evidence of the interdependence of national economies and the strong interconnections between the current and financial accounts of the balance of payments and between these accounts and the central identities of the national income and product accounts.

Concurrent with these changes in the world economy were efforts to modernize economic accounting standards and provide more detailed guidance in areas of emerging interest. Since the Bretton Woods agreement in 1945, the International Monetary Fund has had primary responsibility for setting international standards for the compilation of balance of payments accounts. In 1993, the IMF released the fifth edition of its Balance of Payments Manual (BPM). This revised manual, which replaced an edition released in 1977, reflects contemporary interests and concerns. Among its main features are:

- o Integration of balance of payments accounts with the national accounts as expressed in the SNA. -- This integration reflects the increased importance placed upon integration of international and domestic policy in the conduct of monetary, fiscal, and regulatory policies.
- o Increased emphasis on trade in services and newly emerging categories of trade in goods. -- The accounts have been updated to better portray the composition of trade and to draw sharper distinctions among trade in goods, trade in services, and returns to factors of production.
- o Greater integration of stocks and flows. -- In recognition of the importance of consistent measurement of the composition and size of inter-country claims and liabilities, and of relating financial account transactions to the cumulative stock positions to which they contribute, the BPM now includes a comprehensive

- methodology for measuring the international investment position. (Previous editions had covered only balance of payments flows.)
- o Expansion and revision of the financial account. -- The financial account has been updated to better reflect changes in capital markets and the emergence of new financial instruments and intermediaries. The traditional concept of the capital account now has been divided into two separate and distinct segments--a capital account covering capital transfers and transactions in certain intangible assets and a financial account covering changes in the ownership of financial assets and liabilities.

The United States took a leadership role in the coordinated international effort that culminated in the release of the new BPM. This role is reflected in the great extent to which the new manual is modeled upon the existing U.S. accounts, especially in areas such as foreign direct investment where the United States is clearly the world's leader. In other areas, the new BPM addressed problems common to the United States and other major industrialized nations.

Over the past several years, BEA has taken a variety of steps to adapt its statistics on international transactions to the evolving world economy and the new statistical guidelines. The following are only illustrations of the many steps that have been taken:



- o As mentioned above, major improvements have been made to statistics on trade in services. New surveys have been instituted, existing surveys have been made mandatory under strengthened legal authority, indirect estimates for previously uncovered services have been made using outside source data, and several methodological and presentational changes have been made to achieve conformity with current international guidelines and improve the usefulness of the data.
  
- o As cross-border financial transactions and positions have shown explosive growth, BEA made the case for conducting the 1994 benchmark survey of U.S. portfolio investment abroad (the first such benchmark in 40 years). It also has assumed a lead role in expanding the coverage of the U.S. statistical data collection system, to include better coverage of financial instruments (commercial paper, physical shipments of currency, etc.) and of financial intermediaries who previously were not required to report data.
  
- o To meet demands for information on U.S. international transactions from the perspective of ownership, and responding to a recommendation by a National Academy of Sciences study panel, BEA prepared a supplement to the international accounts that retains the residency basis of the standard accounts, but disaggregates current-account transactions to show additional information on ownership and on sales through affiliates. Essentially a different way of viewing

the same information, it is fully consistent conceptually with the standard accounts and could be regarded as a “satellite” of those accounts.

- o To meet demands for more detailed information about foreign direct investment in particular industries, such as high technology industries, and in particular States, BEA and the Census Bureau have jointly published highly detailed establishment-level data for foreign-owned U.S. firms from Census’s economic censuses. The project was made possible by the Foreign Direct Investment and International Financial Data Improvements Act, passed in 1990, which authorized BEA and Census to share data with other. (Annual data from the Annual Survey of Manufactures were produced through 1991, but this project was discontinued in 1992 for budgetary reasons.)

While steps such as these have gone a long way toward improving the accuracy and coverage of BEA’s data on U.S. international transactions and positions, a number of improvement tasks remain. Some of the more important ones are outlined in the remainder of this paper. These are discussed in four major sections, relating to coverage, accuracy, conformity with international standards, and responsiveness to the needs of data users and providers. Within each section, tasks are listed in rough priority order, based on BEA’s assessment of need and feasibility of carrying them out. BEA is very much interested in the views of the Committee concerning both the tasks that have been identified and the suggested priorities for implementation.

## The Need for More Comprehensive Estimates (i.e., data gaps)

### 1. Services Data:

Data gaps exist in the coverage of cross-border services transactions, both in regard to the frequency of coverage, and the types of services covered. In particular, most of the surveys of unaffiliated services transactions are conducted only annually. As a consequence, the data for transactions occurring in January of a given year are not reported to and published by BEA until July of the following year, or a span of 18 months. BEA does publish monthly and quarterly estimates of these transactions, but its estimates are based on indicator series instead of survey data. There is a critical need for more current data covering several of the largest services, including insurance, construction, telecommunications, financial, and other types of services. Specifically, transactions in these services need to be surveyed quarterly.

Although most types of major services are covered on a balance of payments survey or are estimated via indirect means, some gaps in individual types of services do remain. For example, under international standards for compiling the ITA's, many types of financial intermediation services that are not explicitly charged are not recorded as services in the ITA's. These services include, for example, services of financial intermediaries who earn a margin based on the difference between the interest they receive on loans and the interest that they pay to depositors; the difference between the financial flows that financial intermediaries receive and pay on derivatives; etc. Consideration should be given by BEA,

as well as by the organizations that establish the international statistical standards, to include an estimate of these services in the ITA's.

Finally, some gaps are believed to exist in the coverage of E-commerce services. This is partly because U.S. purchases and U.S. sales of services are generally reported to BEA by the U.S. persons who engage in cross-border services transactions, and the increased use of the Internet may have resulted in U.S. transactors being less likely to be aware of the nationality of their foreign counterparties; in some cases, they may even be unaware whether they are transacting business with foreign persons. It is also because the Internet may have resulted in some new types of services - such as online auctions - that are not covered by existing surveys becoming more prominent. In addition, E-commerce may have resulted in increased transactions by individuals and small businesses, both of which are inherently difficult to survey.

Status of Work: BEA has requested funding in recent years, to increase the frequency of its unaffiliated services surveys for selected services from annual to quarterly, but these funds have not been provided. BEA is considering the estimation issues associated with financial intermediation services, and the data collection issues associated with the increased use of E-commerce. Recently, BEA clarified the instructions on its international services surveys, to specifically state that E-commerce transactions are covered if they fall within the scope of existing categories. Also, some categories of services may be added to

the services surveys. Specifically, online auction services may be included on BEA's next benchmark survey of unaffiliated services (2001 Form BE-20).

## 2. Financial Derivatives:

A financial derivative is a financial instrument whose value is linked to, or derived from, an underlying asset, interest rate, or index. Forwards, futures, options, and swaps, are the primary types of derivatives.

At present, transactions and positions in derivatives are very poorly covered in the international financial flow and investment position estimates. Some transactions in options are reportable on the monthly Treasury Department survey covering cross-border purchases and sales of securities (TIC form S), and these data also feed into the inward and outward estimates of holdings of portfolio investment securities. Also, data from the Commodity Futures Trading Commission are used by BEA in developing estimates of foreign transactions in, and holdings of, U.S. futures contracts. (No estimates are made of U.S. holdings of foreign futures contracts.) But very large gaps in coverage exist. Little is known about the total value of cross-border derivatives transactions and positions of U.S. companies, and even less is known about these amounts at an individual country level.

Data that BEA obtained on a voluntary survey of several large U.S. derivatives dealers suggested that the United States held in excess of \$300 billion in foreign derivatives

(market value) as of September 1998, and that the United States had liabilities to foreigners in derivatives of approximately the same magnitude. That is, when the survey was conducted, U.S. assets and U.S. liabilities under derivatives were large and significantly offsetting at the global level; of course, much less offsetting occurred at individual sub-global levels. Financial flows under derivatives also were shown to be quite large and significantly offsetting at the global level, and the net flow in September 1998 was several billion dollars. Other sources of information suggest that holdings and transactions in derivatives have remained large -- and may have grown significantly -- since 1998. But the absence of regularly collected data on holdings or transactions makes it impossible to know for sure the size of U.S. transactions and positions in derivatives.

Status of Work: The near-collapse of Long-Term Capital Management Partnership and crises affecting other major financial institutions resulted in widespread public attention being focused on the need for more complete and current data on derivatives.

Nonetheless, progress in gathering the needed data has been slow. This is partly because there has been some resistance on the part of potential survey respondents to providing a significant amount of new data on their cross-border derivatives transactions and positions. Such data are not always easily retrievable from transactors' internal accounting systems, which commingle data in a way that is not well suited for balance of payments reporting purposes.

BEA serves on the TIC User Group, which is an interagency committee consisting of representatives of BEA, Treasury, the Federal Reserve Board of Governors, and the New York Federal Reserve Bank who utilize the statistical data collected from the Treasury International Capital Reporting System. BEA staff also actively serve on its Derivatives Survey Sub-Group. Work is now underway to develop a new survey of cross-border positions and transactions in derivatives. As currently envisaged, the survey would be conducted quarterly by the New York Federal Reserve Bank. It is unclear when the survey would first be implemented; it is possible that the initial survey will be conducted in 2001.

### 3. "Short" or Reverse Positions:

"Short" positions are causing statistical problems of unknown dimension. The problem may be illustrated with the following example. Take the case where a U.S. person deposits its holdings of securities with a U.S. custodian, because the custodian provides recordkeeping and safekeeping services at advantageous prices. (The United States has some of the largest securities custodians in the world.) Assume that the custodian has authority to engage in transactions involving the securities - that is, it may on-sell them, lend them, use them in repurchase agreements, etc. (Custodians may be given this authority by their customers.) In some circumstances, two separate persons may believe that they own the same securities -- the U.S. customer of the custodian, and the person who acquired the securities from the custodian. For the investment position to accurately

reflect the securities only once, a negative asset position, or a liability position, must be entered into the statistical accounts, reflecting the fact that the custodian has sold or otherwise disposed of securities that it does not own and that it now has an obligation to restore to the account of its customer. (Sometimes, several negative positions are created, because the securities may be used in a chain of transactions.)

The international statistical standards do not yet address how short positions in securities should be recorded. The 1997 surveys of portfolio investment do not capture the short positions of custodians or others, but the extent of the mismeasurement is unknown. Compounding this problem, in 1997, a “coordinated” survey of portfolio investment abroad was conducted, in which 29 major countries simultaneously participated in conducting a survey of their own individual country’s holdings of foreign securities. (This survey, which was coordinated under the auspices of the International Monetary Fund, will be repeated in 2001, and 49 countries are expected to participate at that time.) One of the major purposes of conducting a coordinated investment survey was to allow a given host country to use data on holdings, obtained by all of the other foreign countries combined, to help estimate its own portfolio investment liabilities to foreigners. The usefulness of the multilateral data to estimate liabilities is diminished if there is duplication in the asset holdings data provided by the other countries.

Status of Work: The International Monetary Fund is aware of this problem and is studying it. Before new statistical reporting standards can be issued, the IMF must engage



in a period of study, consultation, and consensus building among member countries, and that could take as long as several years to complete.

#### 4. Other Short-Term Financial Instruments:

In addition to financial derivatives, there are gaps in the measurement of other short-term financial instruments. For example, gaps are known to exist in the coverage of bankers' acceptances, repurchase agreements (which are treated as collateralized loans under international standards), and possibly commercial paper and other short-term financial instruments.

Status of Work: The TIC User Group is aware of the undercoverage of positions and transactions in other short-term financial instruments, and has established a Short-Term Financial Instrument Sub-Group. The Sub-Group is developing a proposal to deal with the undercoverage.

### The Need for More Accurate Estimates

#### 1. Goods Trade:

There is a critical need to improve the estimates of goods trade. The Census Bureau estimates that goods exports are probably understated by 3 to 7 percent of the published export value (of nearly \$700 billion in 1999), and it says that the understatement could be as large as 10 percent (see <[www.census.gov/foreign-trade/aip/expunder2.html](http://www.census.gov/foreign-trade/aip/expunder2.html)>). The

Census Bureau's conclusions are based on comparisons with partner country data, port audits, and other sources of information. The quality of the goods import data may also have deteriorated in recent years.

An understatement of exports not only results in an overstatement of the U.S. trade deficit, but also would contribute to an understatement in real GDP and productivity growth, with potentially important consequences for budget and monetary policy. The errors may account for a significant portion of the ½% difference in the growth rates in GDI and GDP. (A growth rate difference of this size could lead to a budget forecast error of \$200 billion in the 5-year time horizon used in many forecasts.) Any significant errors in the trade balance would have repercussions on virtually every sector of the domestic economy because of the interactions between the growth rate of GDP and government receipts and expenditures.

The causes of the errors include underestimation of low-valued transactions (those that fall below the threshold reporting level), failure of transactors to file the required documentation, missing or incomplete information on the documents that are filed, missing documents (such as for parts and subassemblies that are transferred among trading partners in the production process), and possibly intentional undervaluation of shipments in response to quotas or tariffs.

Status of work: The problems with the goods trade estimates are attracting more attention but are not yet close to being resolved.

Collaborative work between the Bureau of the Census and the Customs Service has demonstrated that the statistical data problems can be addressed. Intensive on-site compliance audits at ports or border crossings have led to more conscientious reporting by U.S. exporters. Compliance auditing is somewhat costly but it appears to result in significantly more complete trade statistics. Also, shortcomings in the reporting systems over which companies file the trade documents can be addressed. At present, a third of U.S. exporters file their Shippers Export Declaration in paper form. Tests have shown that electronic filing of trade information by the private sector leads to considerably more accurate trade estimates.

Congressional interest in the trade deficit resulted in its establishing, in 1998, the U.S. Trade Deficit Review Commission.<sup>1</sup> The purpose of the Commission is “to study the nature, causes, and consequences of the United States merchandise trade and current account deficits,” and to provide a report on its findings to Congress. The report is scheduled to be submitted to Congress this month (i.e., in November 2000). The findings and recommendations contained in the report are not known as of the writing of this paper. However, even if it recommends addressing the statistical problems with the trade

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<sup>1</sup> Its Commissioners were nominated by officials in Congress and are: Wayne Angell, George Becker, C. Richard D’Amato, Carla Hills, Anne Krueger, Kenneth Lewis, Dimitri Papadimitriou, Donald Rumsfeld, Lester Thurow, Murray Weidenbaum, Michael Wessel, and Robert Zoellick.

estimates, it would probably take considerable time for Congress to act on the recommendations, and a much longer time for effective actions to be taken to address the problems.

To adequately address the problems in the merchandise trade statistics could require an increase in BEA funding of about \$10 million per year. A significant portion of these funds would be made available to other agencies by BEA under reimbursable agreements. These agreements would stipulate that the funds must be used for designated purposes to improve the quality of the merchandise trade data. Some of the funds would be used to improve exporter/importer awareness of the reporting requirements and reduce the number of errors in their export and import data submissions, to brief Customs Service staff to increase their awareness of their role in the merchandise trade statistics, and other purposes.

## 2. Improved Surveys of Investment Positions and Flows:

The results of the Department of Treasury's 1997 Benchmark Survey of U.S. Portfolio Investment Abroad highlighted shortcomings of the existing estimation system for financial flows and investment positions for securities. The prior benchmark was conducted in 1994. The previously published estimate of yearend 1997 holdings - which equaled the yearend 1994 position estimate from the 1994 benchmark survey plus estimates of financial flows and valuation changes during 1995-97 - was \$1.4 trillion, but

the results from the 1997 benchmark survey indicated that the actual amount was \$1.7 trillion, or an error in the position estimate of about 20% (\$300 billion) in just 3 years.

The \$300 billion discrepancy may have resulted from errors in the 1994 benchmark survey results, errors in the estimates of flows or valuation changes during 1995-97, or a combination of these factors. Regardless of the source of the errors, it is clear that U.S. transactions in and holdings of foreign securities have grown tremendously during the past several years, and some type of regular - preferably annual - survey of holdings, for both inward and outward portfolio investment, are needed in order to assure quality of the estimates.

It is also likely that there are significant deficiencies in the coverage of other financial flows. For example, partner country data, and Bank for International Settlements (BIS) data, have helped to show that there are probably some major shortcomings in the existing U.S. data collection system.

Status of work: The members of the TIC User Group are actively engaged in addressing the shortfalls of the existing TIC Reporting System. Among the actions taken are more intensive editing of reported data; expansion of the mailing lists to include additional respondents; clarification of reporting instructions; and engaging the services of an outside consultant, who is performing a strategic review of the TIC Reporting System (the consultant's report is expected to be submitted in spring 2001). Among the actions that

are being considered but that have not yet been taken are: Expanding the coverage of derivatives and other short-term financial instruments; and conducting more frequent Treasury surveys of inward and outward investment positions.

### 3. Portfolio Income:

At present, BEA's estimates of portfolio income (interest and dividends received and paid on securities, excluding direct investment) are indirectly estimated. That is, they are developed by applying estimates of the average yield on the various types of securities held to estimates of outstanding holdings of securities.

The existing methodology is imprecise. The estimates of holdings of securities are frequently revised by very large amounts (for example, for 1997, the estimate was raised from \$1.4 trillion to \$1.7 trillion last year, based on the results of Treasury's outbound portfolio investment survey), and the estimates of average yields are also suspect, because necessary information on the precise types of securities held during a given measurement period is inadequate or absent.

In its direct investment surveys, BEA collects information on interest and dividends received and paid directly from multinational enterprises that report on these surveys. We believe that direct reporting of income data by respondents probably results in much more accurate estimates of interest and dividends than the current indirect estimation techniques now utilized in the portfolio income area.

Status of work: The Treasury Department is responsible for collecting the U.S. government data on portfolio investment. Informal discussions by BEA with Treasury regarding the direct collection of portfolio income data have begun.

## The Need for Greater Conformity With International Standards

### 1. Insurance Services:

BEA's measure of cross-border insurance services equals premiums minus losses (or claims) for a given period. Under this methodology, the measure of insurance imports and exports may fluctuate from period-to-period solely because of losses from hurricanes, earthquakes, and other disasters, or the absence of these events.

Under international standards, the measure of insurance services should be derived by taking the ratio of estimated services to total premiums, and applying this ratio to the estimate of premiums for a given year. The ratio should be based upon the average relationship between claims and premiums for a medium- to long-term period, to avoid the volatility described above.

Status of Work: No work has begun, pending further discussion of priorities for the coming year.

### 2. SDDS Requirements:

The Special Data Dissemination Standards (SDDS) are an initiative of the International Monetary Fund. Financial payments problems in foreign countries in 1994/95 underscored the role that information deficiencies could play in contributing to market turmoil. The SDDS was envisaged as providing, on a voluntary basis, a set of data dissemination standards, to which countries participating in international capital markets, or aspiring to do so, could subscribe. Subscription to the SDDS is voluntary; however, observance of the Standard by subscribers is mandatory.

The Treasury Department, as the U.S. Government's representative to the IMF on SDDS matters, has stated that the United States will adhere to the SDDS standards. Doing so commits the United States to providing certain data that it does not now produce, and could require a significant effort and cost. For example, under recent new recommendations under the SDDS initiative, quarterly data on the international indebtedness of the United States would be produced. BEA now produces estimates of the International Investment Position (both assets and liabilities) of the United States annually. Although data on transactions are available quarterly, "valuation adjustments" are currently available only annually. (Valuation adjustments are BEA's estimates of changes in the value of holdings due to price changes, exchange rate changes, writeoffs, and other factors, except transactions.) It would be costly for BEA to reproduce, on a quarterly basis, its complex annual estimation procedures for valuation adjustments. On the other hand, valuation adjustments are often highly significant, and U.S. indebtedness to



individual countries may show the wrong direction of change if only flows were considered in their calculation.

Status of work: BEA is working with Treasury and other agencies, to come into compliance with the SDDS external debt reporting standards. (Countries have until 2003 to be in compliance with this particular standard.) BEA is seeking funding to produce the quarterly position data. BEA believes that the quarterly data provided to the IMF should be consistent with the data that BEA produces annually for the IIP, which means that valuation adjustments must be considered. BEA also believes that any new estimation efforts should not be focused solely on quarterly debt statistics -- quarterly asset statistics must be developed, too, so that the extent of offsetting between assets and liabilities may be known.

### 3. Other Variances:

There are numerous other areas where BEA treatment is not entirely consistent with the international statistical standards. In most cases, BEA has not yet analyzed the pros and cons of coming into full compliance with the standards. Although BEA generally adopts the standards whenever possible, in some cases, it does not adopt the standards, sometimes for practical reasons and sometimes for conceptual reasons.

Some of the existing variances include: (a) Royalties and license fees include “sale” and “use” transactions indistinguishably, rather than placing the sale transactions in the capital account as recommended; (b) construction services are recorded net of expenses, rather than gross of expenses as recommended; (c) repairs are treated as a service rather than as trade in goods as recommended; (d) goods procured in ports by transportation carriers are recorded under transportation services rather than under trade in goods as recommended; (e) the classification by country of direct investment transportation affiliates is based on country of incorporation of affiliate rather than nationality of operator as recommended; (f) satellite launch services are recorded in telecommunications services rather than in transportation (the latter is an implicit recommendation in the international standard); (g) data on specific types of services cover, for the most part, only transactions with unaffiliated foreigners, and data on transactions with affiliated foreigners are largely undifferentiated by individual type of service.

Most of the above variances from the standards are not major, but the number of such variances is significant, and therefore coming into full compliance would require a significant effort on the part of BEA staff. The effort is made somewhat more difficult because the standards do not necessarily remain static. For example, the standards regarding the treatment of settlement flows under the terms of interest rate financial derivatives were recently revised (these flows are now to be recorded in the financial account as transactions in financial derivatives, rather than in the current account as interest).

Status of Work: BEA is now considering which areas of variance it will study in fiscal year 2001.

The Need to Better Respond to, and to Keep Pace With, the Needs of Data Users and Providers

1. Need for More Special Analyses:

In the international accounts area, BEA publishes a large number of quarterly, annual, and other more-or-less “regular” articles and analyses in its monthly publication, the Survey of Current Business. For example, it prepares quarterly articles of the international transactions accounts, with a focus on the most recent quarter’s and on the most recent year’s data; annual articles on the operations of foreign owned U.S. companies, and operations of foreign affiliates of U.S. companies; an annual article on transactions in

services; an annual article on the International Investment Position of the United States; an annual article accompanying the release of the annually revised estimates of the ITA's; an occasional article presenting current account data in an alternative, ownership-based framework; and annual articles presenting inward and outward direct investment position data on an historical cost basis, by country and industry.

BEA also produces "special" articles or analyses on important aspects of the international transactions or position accounts. For example, in the March 2000 issue of the Survey, it published an article entitled, "An Examination of the Low Rates of Return of Foreign-Owned U.S. Companies." That article showed that, among several factors that may help to explain the lower return on assets of foreign-owned companies, age of affiliate and market share were significant, and industry mix and the shifting of profits outside the United States using transfer prices was found to be relatively insignificant. Also, in May 1999, BEA published an article entitled, "Regional Patterns in the Location of Foreign-Owned U.S. Manufacturing Establishments." It showed that the regional distribution of newly built, or "greenfield," establishments is relatively concentrated in parts of New England and the Southeast. It also showed that, by country of ownership, the regional patterns for Canadian- and Japanese-owned greenfield establishments differ noticeably from those of other foreign-owned greenfield establishments.

A question is whether BEA's data users would prefer more special articles and analyses. If BEA were to focus on special articles and analyses, as a consequence, BEA's standard articles would probably have to be significantly cut back.

Status of Work: BEA has cut back some of its standard articles during the past year, mostly to reduce the size of the exposition (relatively few of the data tables have been cut back or eliminated).

## 2. Electronic Reporting:

BEA is committed to providing respondents to its mandatory surveys an option to report their data electronically. Electronic reporting offers the opportunity for reduced respondent burden (as less time would be required to prepare survey responses); quicker availability of survey responses; fewer data problems; lower costs (both to BEA, who does not need to keypunch electronically reported data, and respondents, who save mailing costs). In addition, the Government Paperwork Elimination Act requires electronic reporting to be offered as an option wherever practicable by October 2003. Nonetheless, it should be noted that there are significant costs to BEA associated with developing and implementing electronic reporting.

Status of Work: The work that has been completed thus far has largely been performed by an outside contractor. As sufficient funding becomes available, BEA plans to migrate this work to additional of its surveys.

## Conclusions

As mentioned, BEA believes that it is important to make significant progress in each of the above areas, but it cannot make significant progress in all areas simultaneously. In certain cases, BEA's role is limited to encouraging an outside agency to make essential statistical data improvements, and/or BEA assisting in making a public case for funds (either for BEA or the outside agency), to address the data issue. Some areas that BEA deems to be of high priority may be ones where BEA, by itself, is unable to bring about the needed improvements.

The areas that BEA currently considers its highest priorities are:

(1) Goods trade. The estimates of trade in goods (both imports and exports statistics) are critical, because of the broad impact of these data, not just on the BOP accounts but also on measures of real GDP, productivity growth, government receipts and expenditures, etc. However, BEA cannot make the necessary improvements by itself. The Census Bureau and the U.S. Customs Service have key roles to play in improving the goods trade data.

(2) Services trade. The explosive growth in certain types of services has resulted in a critical need for conducting quarterly surveys of the largest types of services. At present, only annual surveys are conducted for most types of unaffiliated services transactions. Extensive use must be made of indicator series and judgmental estimates to produce the

services estimates appearing in the joint BEA/Census Bureau monthly press release, on goods and services trade in the prior month. The monthly and quarterly services estimates are often significantly revised when the results of the annual survey become available. Also, data gaps (such as for on-line auction services) must continue to be identified and closed.

(3) New financial instruments (derivatives, and ‘short’ positions). The data gaps involving derivatives are large and may be a significant contributor to the volatility in the statistical discrepancy in the BOP accounts. In light of the large size of the cross-border transactions and positions of derivatives dealers in the United States, it is not acceptable that the United States has virtually no coverage of derivatives in its estimates of BOP transactions or the International Investment Position of the United States.

Improving the coverage of “short” positions is considered a high priority item by BEA even though it is unclear whether a sizable statistical problem yet exists. Even if the problem is small now, there is a likelihood that it will become more significant over time, and it is important to take action now. Necessary action consists of collecting information on the extent of short sales of securities, and on resolving some of the complex statistical questions about how to account for transactions in these securities.

To assure better coverage of new financial instruments, BEA needs to obtain data on cross-border holdings of securities (both assets and liabilities) more frequently, preferably

annually, and the TIC Reporting System must continue improving its coverage of financial flows.

Although BEA does not consider “the need for more special analyses” or “electronic reporting” to be the items carrying the highest priorities on its list, it has the ability to implement continued progress in both of these areas this year, and plans to do so. In regard to “the need for greater conformity with international standards,” none of the areas listed (improving the measurement of insurance services; coming into compliance with the IMF’s Special Data Dissemination Standards; and resolving a list of miscellaneous other variances with international standards) are now considered as top priorities. BEA is in substantial compliance with the current statistical standards for recording balance of payments transactions and for compiling the international investment position. In fact, the direct benefits to the United States of generating quarterly as opposed to just annual data on the U.S. debt position is quite small, and producing the estimates more frequently would draw resources away from other areas. In regard to the other two priorities mentioned (data gaps in the coverage of “other” short-term financial instruments; and the need for more accurate estimates of portfolio investment income), both of these are considered as high priorities, but not the top priorities on the list.

#### Final Remarks

The pace and extent of progress on its priorities will no doubt be improved if BEA receives annual appropriations increases for improving its source data. These additional



monies would, in most cases, not be retained by BEA but, instead, would be disbursed to its source data providers under reimbursable agreements that stipulated that the funds would be used for specific improvements to BEA's source data. During the past decade, BEA has been trying to stay abreast of the rapidly changing world economy in the context of a series of annual budgets that have, in real terms, declined. Achieving an adequate level of funding, as well as annual increases that allow BEA to continue to make improvements, is sorely needed. Due to its past budget shortfalls, BEA eliminated a number of programs to focus on its core areas, and has made improvements only in those areas that were deemed to be the highest priorities.

Another way to significantly improve the international accounts data is through broad inter-agency data sharing.<sup>2</sup> At present, BEA does not have access to the data that are reported to the Department of Treasury or most other outside agencies. As a consequence, BEA cannot inspect or adjust these data for duplication, and cannot determine whether large individual transactions are entirely omitted from the outside data collection programs. It should be noted that it is not obvious where budget savings would originate under data sharing – in fact, it is likely that costs would actually initially increase, as agencies linked data sets and performed new analyses not heretofore possible.

Finally, it is clear that communication is necessary in order to assure the accuracy and adequacy of BEA's outputs. We need to regularly communicate all of our customers,

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<sup>2</sup> It should be noted that inter-agency data sharing has broad positive implications beyond BEA's international programs. It would lead to very significant improvements in BEA's national, regional, and industry accounts, too, as well as to improvements in the programs of outside agencies.

including you -- the members of our Advisory Committee -- as well as BEA's other data users and data providers, so that we can provide you with the data and information that you need.