



## **Integrating Balance of Payments and Sectoral Accounts in the Netherlands<sup>1</sup>**

Erik Bieleveldt\*

De Nederlandsche Bank, Amsterdam, the Netherlands – [E.J.M.Bieleveldt@dnb.nl](mailto:E.J.M.Bieleveldt@dnb.nl)

Pim Claassen

De Nederlandsche Bank, Amsterdam, the Netherlands – [H.M.M.Claassen@dnb.nl](mailto:H.M.M.Claassen@dnb.nl)

### **Abstract**

In the Netherlands, balance of payments and international investment position (BOP/IIP) statistics have traditionally been compiled by the central bank, while the sectoral accounts (as part of national accounts) are being compiled by the national statistical institute. Although the operational cooperation between both institutions is close and has intensified over the past years, different use of sources and compilation methods (including revision strategies) have resulted in persistent inconsistencies between both integrated statistics, which are difficult to explain and confuse users – particularly since methodologies in international statistical manuals have recently been harmonized. In 2014, De Nederlandsche Bank and Statistics Netherlands made the strategic decision to integrate the compilation processes for BOP/IIP statistics and sectoral accounts, which after implementation should result in fully consistent quarterly publications for the BOP/IIP and the rest-of-the-world account. This paper explains the rationale behind this decision and elaborates on the arrangements that both institutions have worked out to ensure the future consistency between these statistics and at the same time aim to foster their quality. These arrangements include the design of new joint reporting forms serving both BOP/IIP and national accounts needs, the development of a single revision policy, and the agreement on a clear division of tasks for the whole statistical process from data collection until dissemination. Within this division of tasks, the participation of experts from the De Nederlandsche Bank in the integration process for sectoral accounts is foreseen. Relevant adjustments in sectoral accounts resulting from this process of confronting and integrating figures from different sources are to be incorporated in the BOP/IIP as well.

**Keywords:** External Statistics; National Accounts; Rest-of-the-World account.

### **1. Introduction**

In early 2003, De Nederlandsche Bank (DNB) changed its system to compile the Dutch balance of payments (BOP) and international investment position (IIP) from a settlements system to the current direct reporting system.<sup>2</sup> This system is characterized by extensive and fully-reconciled monthly reports of transactions and positions broken down by the country and sector of the counterparty (security-by-security for securities transactions) and still produces monthly BOPs and quarterly IIPs of good quality. Yet, recent years have seen a number of developments that have prompted a reconsideration of the current approach and the development of a new vision on the compilation of the Dutch BOP. Under the new vision, DNB will ‘derive’ the BOP from an extensive sectoral reporting primarily aimed at compiling sectoral statistics and the national accounts, while – together with Statistics Netherlands (CBS), which is responsible for the compilation of national accounts in the Netherlands – aiming at full consistency between the published BOP and the national accounts.

Section 2 of this paper describes the developments that have prompted the new vision, while section 3 sets out the vision. Section 4 discusses the practical implementation in greater detail. Section 5 concludes and raises a number of questions for further discussion.

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<sup>1</sup> An early version of this paper was discussed by the IMF Balance of Payments Committee at its meeting of 27-29 October 2014.

<sup>2</sup> See “Balance of payments in the Netherlands – The road to a modern survey system”, [DNB Statistical Bulletin Special Edition](#), May 2003.

## 2. The rationale for developing a new vision

In recent years there have been two important driving forces behind the development of a new vision that will form the basis for the new system for compiling sectoral statistics and the BOP and IIP.

First, consistency between the BOP/IIP and the rest-of-the-world (ROW) account as part of the national accounts has become an important area of concern. External statistics have been in the spotlight since the financial crisis broke out in 2007, certainly also in Europe.<sup>3</sup> Policy makers and other users have problems dealing with sometimes considerable differences – due to a multitude of causes – between important indicators such as the current account balance and the net IIP stemming from the BOP on the one hand, and the same indicators produced in the context of the ROW account on the other. Also in the Netherlands there are considerable differences between the BOP and the ROW account, notwithstanding intensified cooperation in recent years in order to reduce discrepancies. For instance, the Dutch net IIP at the end of 2014-Q3 as reported in the BOP statistics was about EUR 70 billion lower than the net IIP published in the national accounts (approximately EUR 390 billion versus EUR 460 billion). These discrepancies are in particular caused by differences in the sources used and revision policies followed.

Second, the outbreak of the financial crisis highlighted a greater need for statistics about individual financial sectors. Within the European System of Central Banks (ESCB), this has resulted in new legislation on the compilation of ESCB sectoral statistics and the submission of these statistics to the ECB. While banks have been subject to a specific statutory reporting framework – mainly to support the ECB's monetary policy – for some time, financial stability considerations have more recently been an extra driver for the development of statistics legislation also for investment funds, special purpose vehicles and insurance companies. New ESCB legislation might be anticipated for the pension funds sector as well. The development of these sectoral statistics also benefits the development, also at a European level, of a fully-fledged system of quarterly sectoral accounts. The significance of quarterly sectoral statistics has expressly been recognized in the G20/FSB Data Gaps Initiative as it would allow for instance for thorough balance sheet analysis. DNB's system, implemented in 2003, was originally developed for the compilation of only the BOP and the IIP. Over the years, the system has expanded to also encompass domestic transactions and positions of various financial subsectors, which has made the current system rather complex and difficult to maintain. As part of a statistics renewal program, DNB is developing a new IT system that will facilitate the production of sectoral statistics and balance of payments from the same source data in a flexible and transparent way.

## 3. Basic principles for a new BOP system

An important objective of the new vision on the compilation of the BOP is to achieve *full consistency between the BOP and the ROW account*. That is why DNB and Statistics Netherlands have decided to align their processes and the sources used to produce these statistics. In that process, adjustments to the ROW account as a result of integrating (i.e. making internally consistent) the sectoral accounts will also be incorporated in the BOP. As regards the frequency, the primary focus will shift from compiling the monthly BOP to the *compilation of statistics on a quarterly basis*.

### a. Consistency between BOP and ROW account

One of the causes of the current differences between the BOP and the ROW account is that DNB and Statistics Netherlands use different and sometimes inconsistent sources, including surveys, particularly for non-financial sectors. It is also evident that both DNB and Statistics Netherlands collecting and verifying comparable information (followed by a comparison of outcomes) is not efficient. DNB and

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<sup>3</sup> In the European Union, the Macroeconomic Imbalances Procedure (MIP) entered into force in 2011. Under the MIP, an alert system based on a macroeconomic scoreboard identifies imbalances within and between individual EU countries. Countries are urged to address such imbalances where necessary. The scoreboard contains various BOP indicators, including the current account balance and the net IIP.

Statistics Netherlands have decided to develop a *new consistent report* for all financial sectors and the non-financial corporations with the aim of compiling high-quality sectoral statistics (and meeting the relevant ESCB legislation), which will also serve as input for the national accounts.<sup>4</sup> While the BOP takes center stage in DNB's current collection system, it will be 'derived' from the new reports in the future system. That is because there will be a comprehensive and consistent reporting framework for all observable sectors, covering both domestic and cross-border transactions and positions (reconciled). Reporting institutions will have to provide complete and balanced balance sheet data and a profit and loss account, with a breakdown by the country and sector of the counterparty if relevant. It is important that the data collection is primarily based on statistical terms and definitions, derived from the most recent publications of the System of National Accounts (2008 SNA) and the IMF's Balance of Payments Manual (BPM6). That way, the reported data can, as much as possible, be used directly in producing statistics – without statisticians having to make adjustments to accounting terms, given that the reporter is deemed to be in a better position to make such adjustments.<sup>5</sup> With the most recent updates to these manuals, the methodological standards for the national accounts and the BOP are now fully harmonized. On the basis of these manuals, a single data collection approach can fulfil a large part of the information needs for compiling the national accounts, the BOP as well as the sectoral statistics.

The new vision makes a distinction between the sectoral statistics as source statistics on the one hand, and the BOP/IIP and national accounts as integrated statistics on the other. The BOP and national accounts as integrated statistics use a multitude of sources, including estimates, which are confronted with each other.<sup>6</sup> The BOP and the national accounts are made mutually consistent. Sectoral statistics underpin the integrated statistics, but they are not necessarily consistent with them. Sectoral statistics are more closely linked to the observation and often become available more quickly and with additional details, for example for the benefit of financial stability analyses.

Except through integrating sources, the consistency between the BOP and the ROW account will also be enhanced by the *joint integration of these statistics* in the context of the sectoral accounts. The quality of the BOP will profit from a comparison with information from other sources and sectors during this integration process. In effect, joint integration means that adjustments to the ROW account resulting from the sectoral accounts integration are also included in the corresponding BOP items. From an institutional perspective, this change implies that integrating the sectoral accounts, including the ROW account, will be a joint responsibility and effort of Statistics Netherlands and DNB. Currently, Statistics Netherlands is responsible for the integration, without DNB having any direct involvement. Under the new vision, DNB will participate in the integration process through its BOP experts but also through its financial sector experts. On the one hand, the latter will bring additional source expertise to the table for making decisions related to the sectoral accounts integration. On the other hand, the sector specialists may be able to learn from problems or insights revealed by the integration process, which can help them to improve the quality of the sectoral statistics, even though adjustments arising from the integration will not be copied directly to sectoral statistics (being source statistics).

A final important condition for consistency between the published BOP and the ROW account concerns the application of a *harmonized revision policy*. The national accounts have a tradition of long continuous time series, with a full revision taking place every five to ten years. The BOP, however, is traditionally kept more current, with several revisions every year and, as a result, frequent breaks in series. For a future uniform revision policy, a 'hybrid' approach has been chosen. In this approach the financial accounts (possibly including some related items in the current account) of the sectoral accounts and the BOP are revised annually, while the major part of the current account

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<sup>4</sup> Given the strict statutory monthly requirements for banks and the central bank, their current monthly reporting regime (used for compiling sector statistics, sector accounts and the BOP) will remain intact.

<sup>5</sup> An example concerns adjusting the book value of a company's equity capital to reflect the market value. As a result of the choice for statistical terms and definitions, reported balance sheets will usually not balance. In the new report, a balancing item is foreseen that reflects the net effect of this conversion (and which should be explained by the respondent if sizeable).

<sup>6</sup> With the transition from settlements systems to direct reporting systems, the BOP has basically evolved from a (single) source statistic to an integrated statistic.

(including supply and use tables) will be revised at least once every five years. While revisions play a main role in the financial accounts, for current account items (including indicators such as GDP) users are more interested in stability and continuous series. In addition, a revision of the current account is more complicated and more labor-intensive due to the size and level of detail of the system of supply and use tables. Should different revision frequencies lead to too much ‘pressure’ between the current and the financial accounts, it would be possible to carry out an *ad hoc* extra revision of the current account.

*b. Focus on quarters rather than months*

Under the current Dutch system, DNB collects data for the BOP and the IIP on a monthly basis only (except for some annually reported data on direct investment income and stocks). DNB, however, does not publish a monthly BOP for the Netherlands because users have never shown interest in a national BOP on a monthly basis.<sup>7</sup> DNB does compile a provisional BOP containing key items, which is submitted to the ECB and Eurostat within 44 days after the reference month. This forms a building block for the monthly BOP of the euro area (aimed primarily at supporting the monetary policy) and the EU. DNB submits to the ECB and Eurostat and publishes nationally an extensive BOP and IIP on a quarterly basis. Under the current system, quarterly data are constructed as the sum of the three underlying months. Presently, DNB collects far more monthly data (transactions breakdowns, positions and revaluations) from reporters than it needs every month.

In contrast to the current approach, the new process focuses primarily on the production of quarterly statistics. Users deem it increasingly important to have consistent and high-quality quarterly macroeconomic statistics.<sup>8</sup> DNB will have to continue its production of monthly BOP key items for the European institutions, but the monthly process will be set up in a less burdensome form and with much less reporting. For the current account of the Dutch monthly BOP, simulations have shown that it will be possible to initially estimate the main items using an ARIMA model, provided that monthly information about the exports and imports of goods is available (which is the case from the monthly trade statistics). The differences between the initial estimates and the final (i.e. last known) measurements turn out to be very much in line with the revisions to the initial monthly outcomes observed in the current system. For the compilation of the financial account, DNB plans to make use of existing sources (in particular banks’ monthly monetary reports) in combination with monthly security-by-security reporting on portfolio investments. Security-by-security reports are mostly standardized by reporters, so can relatively easily be submitted on a monthly basis. In particular with regard to portfolio investment and other investment (the latter largely filled with data from banks’ monthly reports), users demand data with high frequency and timeliness to quickly identify economic and financial developments. Information on direct investment is used mostly in structural economic analysis. In addition, direct investment flows are difficult to estimate reliably on a monthly basis without a relatively large reporting sample.<sup>9</sup> For direct investment, DNB plans to concentrate on compiling high quality quarterly data, while treating this item as a balancing item in the monthly BOP (i.e. as the difference between the balance on the current and capital account and the combined balance of the other parts of the financial account).<sup>10</sup> In line with this approach, DNB would favor the development of a number of relevant – readily available – monthly indicators to meet the monthly information needs for monetary policy, rather than compiling the BOP on a monthly basis. This could include indicators reflecting trade balance developments, developments in portfolio investment and,

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<sup>7</sup> Even when the Netherlands still had its own currency, DNB did not publish the BOP monthly.

<sup>8</sup> While, traditionally, many countries – in particular where a settlements system has been used – compile their BOP on a monthly basis, national accounts are originally compiled on an annual basis in many countries. The fundamental choice for consistent quarterly statistics that meet the needs of users results in a convergence of frequencies.

<sup>9</sup> In the Netherlands, a relatively large population of Special Purpose Entities reside, which makes estimating direct investment figures particularly challenging (even more on a monthly basis with short timeliness). These entities tend to have significant (irregular) flows especially in direct investment.

<sup>10</sup> DNB investigates whether monthly information on the financial derivatives balance can be estimated from new regulatory data from trade repositories and central counterparties. After the quarterly BOP has been compiled, DNB will replace the initial monthly estimates with the quarterly data allocated to the relevant three months.

with a view to possible liquidity outflows, indicators for transactions between banks (including official reserves).<sup>11</sup>

The communications with reporters about the new extended quarterly data collection approach will emphasize that monthly reports will be discontinued or that they will be much more limited. The 'lighter' monthly process will also save resources at DNB, which – except in other new and demanding statistics domains – can be used in reviewing quarterly reports and aligning the BOP with the ROW account. The extra focus of both reporters and DNB statisticians on producing accurate and consistent quarterly statistics should result in high-quality quarterly information (BOP, sectoral accounts and sectoral statistics). However, the quality of the monthly BOP (i.e. the monthly contributions to the euro area and EU balance of payments) will fall compared to the current high level.

#### 4. Practical implementation of the new vision

In the course of 2014, DNB and Statistics Netherlands started a joint project working out the vision that was stipulated in a joint senior management meeting. In this project, DNB and Statistics Netherlands are working step by step towards achieving full consistency between the BOP and the ROW account as of the start of 2017, when the new reporting forms for the financial sectors and non-financial corporations are intended to be introduced.

The project breaks down into several workflows, which are aimed at setting up all aspects of the new process for compiling the BOP/IIP, sectoral statistics and the sectoral accounts, including timelines. The annex contains a high-level diagram of this process. This shows how DNB will ensure delivery of 'ESA-compliant' sectoral statistics (i.e. statistics on transactions and stocks compiled in accordance with the European System of Accounts framework<sup>12</sup>) – resulting from the new quarterly data collection approach – to Statistics Netherlands that will be taken as input for the sectoral accounts integration process, in which DNB will also be actively involved. Any adjustments to the ROW account resulting from the integration will also be included in the BOP/IIP for publication.

Arrangements are also made on the division of responsibilities. DNB will be responsible for observing and compiling the financial subsectors, while Statistics Netherlands will take on the responsibility for the non-financial sectors (non-financial corporations, government, households and non-profit institutions) in the national accounts and the BOP/IIP. This division of roles does justice to the comparative advantages of DNB – as the central bank, keeper of financial stability and supervisor of the financial sector – and Statistics Netherlands, which has always had a good understanding of the non-financial sectors. It also addresses the current fragmentation and redundancy in observation. DNB keeps the final responsibility for the overall compilation of the BOP/IIP and FDI statistics, while Statistics Netherlands stays responsible for compiling the national accounts – with a joint responsibility for the ROW account.

Furthermore, the details of the harmonized revision policy (following the 'hybrid approach' described in section 3a) are worked out and DNB's and Statistics Netherlands' future publication policies are aligned within the project. Lastly, workflows are finalizing the new reporting models for financial institutions (to be used by DNB) and non-financial corporations (to be used by Statistics Netherlands; the latter replacing the current two surveys operated by Statistics Netherlands and DNB), and ensuring the consistent fulfillment of the data needs from both institutions for the government, households and non-profit institutions serving households sectors.

Besides these workflows elaborating the new process that is planned to be operational from 2017 on, there are activities specifically aimed at identifying any quick wins that could be realized already before 2017. The first results were delivered together with the transition to the new IMF manual for

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<sup>11</sup> Similar considerations have led the Australian Bureau of Statistics to move from a monthly BOP statement to monthly indicators; see "Do we need Monthly Balance of Payments Statistics?", [ABS Information Paper](#), January 2007.

<sup>12</sup> The European System of Accounts (ESA) works out the System of National Accounts (SNA) and its transposition into European legislation. ESA2010 specifically elaborates on 2008 SNA.



balance of payments (BPM6) in the last quarter of 2014. At this opportunity, a full alignment took place of a number of key variables from the current account of the BOP (goods and services; certain primary and secondary income flows) with the ‘integrated’ levels from the national accounts. To facilitate this, DNB and Statistics Netherlands made new arrangements and DNB extended the timelines for the BOP compilation process. Moreover, recently significant steps have been taken in aligning the income accounts from the balance of payments and the ROW account.

## **5. Conclusions and questions for discussion**

The financial crisis has led to an increase of interest in BOP/IIP statistics and of the importance that is attached to consistency with the sectoral accounts. This development, together with a greater need for statistics about individual financial sectors which has also resulted in new European legislation, has induced DNB and Statistics Netherlands to work out a vision in which sectoral statistics, BOP/IIP and sectoral accounts are compiled on a quarterly basis within a single integrated process. This will lead to higher quality quarterly data with full consistency between the published BOP/IIP and ROW account. The future processes are designed taking as a starting point that DNB and Statistics Netherlands should be acting like they were one single organization. This means, among other things, that just one institution will be responsible for surveying and compiling a sector and that all relevant source information will be shared between both institutions. The agreed division of responsibilities and all practical arrangements will be set out in (an update of) the formal cooperation agreement between DNB and CBS.

DNB is interested to learn from other statistics compilers their views on the compilation of the BOP and IIP and sectoral accounts as set out in this paper. In particular, DNB would like to raise the following questions for discussion:

- Do other countries explicitly aim to publish fully consistent BOP/IIP statistics and sectoral accounts and how do they realize this?
- Are there any experiences with a parallel integration of the BOP and the ROW account within the sectoral accounts (i.e. with including in the BOP/IIP any adjustments to the ROW account resulting from the integration within the sectoral accounts)?
- Is the limited need for a monthly BOP recognized in other countries? Could readily available indicators on a monthly basis be sufficient to support monetary policy?

**Annex:**

**Diagram of the new quarterly process for compiling sector statistics, sector accounts and BOP/IIP**

