Irving Fisher Committee on
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

IFC Satellite meeting at the ISI World Statistics Congress on "Assessing international capital flows after the crisis"

Rio de Janeiro, Brazil, 24 July 2015

BPM6 implementation in Poland – communication and analytical challenges[1]

Jacek Kocerka, Central Bank of Poland

[1] This paper was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

BPM6 implementation in Poland – communication and analytical challenges

Jacek Kocerka – Narodowy Bank Polski

The aim of this paper is to present the approach adopted by Narodowy Bank Polski (NBP) in implementation of new requirements compliant with 6th edition of Balance of Payments and International Investment Position (BPM6). The focus is on communication and analytical challenges, crucial from the user point of view.

Pursuant to the provisions of the Act on Narodowy Bank Polski tasks performed by the central bank include: *"development of money and banking statistics, balance of payments and international investment position."* Therefore, NBP compiles: balance of payments, international investment position, external debt, international trade in services and foreign direct investment.
Balance of payments statistics like any kind of macroeconomic statistics which covers the whole economy is developed in Poland based on a variety of data sources. Data is derived from public statistics (e.g. international trade in services), from other research conducted i.a. for the balance of payments (tourism) or directly from entities that carry out financial transactions with foreign entities or intermediate in such transactions. Should direct data sources prove insufficient a compilation of the estimates is performed.

The new, BPM6 compliant, data has been published by NBP at the end of September 2014, however certain preparations to this release have started several years earlier. Shift in compilation system from settlement to direct reporting has been initiated in 2007 following changes implemented in European legislation. Such a substantial change required new data collection and compilation IT system, development of which has started at the beginning of 2010. One of the most important feature of this new system was implementation of new BPM6 requirements, but a lot of effort has been put to achieving full consistency with the National Accounts, both financial and non-financial.

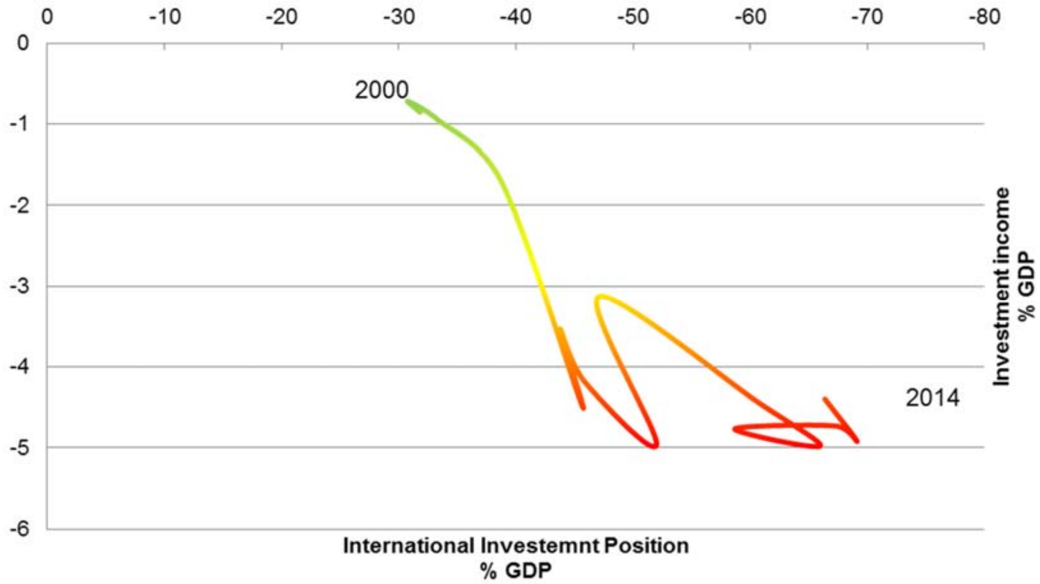
Consistency with national accounts and joint introduction of European System of Accounts (ESA 2010) and BPM6 has created an opportunity for a joint seminar with the Central Statistical Office (CSO). At the seminar statisticians from both NBP and the CSO presented the most important changes introduced to the bop by the new methodology. Moreover Narodowy Bank Polski has also met with internal users, with a view to helping them understand new data. Publication of time series based on BPM6 had been accompanied by special press briefing and a press release. Those interested in bop data could direct their questions to a dedicated e-mail address. Description of changes introduced in BPM6 had also been published in the Quarterly Balance of Payments Bulletin and the Annual Report on FDI. The central bank website remains the main source of information.

Implementation of new methodology and development of new IT system paved the way for new analytical possibilities. Notwithstanding “classical” breakdowns required by international organizations (e.g. IMF, Eurostat) NBP was able to deliver new types of information, the most important of which were remaining maturity for external debt, nominal (and market) value for derivatives and currency breakdown.

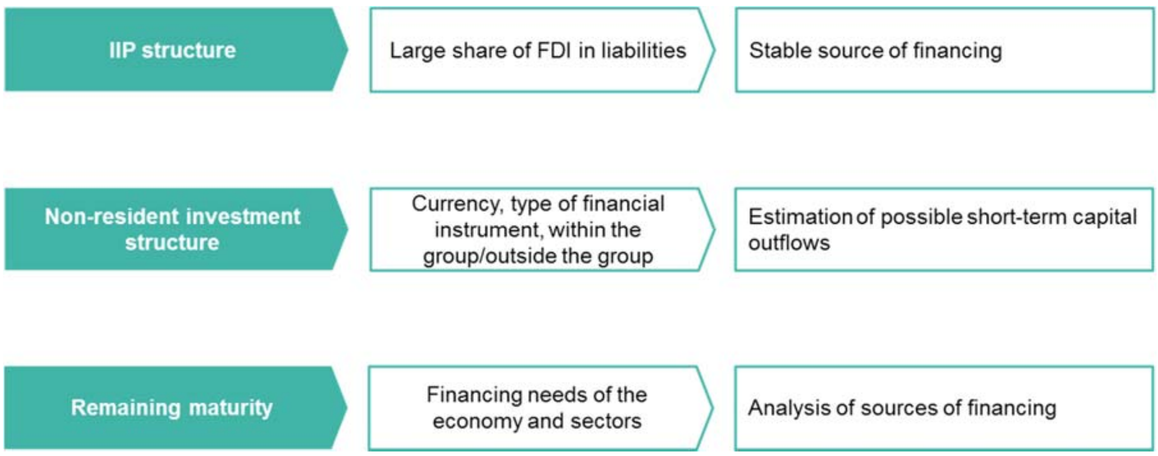
There are couple of reasons why such information is important for our users.

To understand those, first let me touch upon certain external developments of Polish economy. Poland has negative International Investment Position accounting to 67% of the GDP. Such negative iip has been caused by imports of investment from abroad over the last 25 years, boosting GDP growth. The high value of the negative international investment position is a consequence of long-term capital inflows in Poland. This situation is typical for countries that need to import savings from abroad to maintain high economic growth.

There are two negative consequences of such imbalance. The first is income deficit, which during last few years remained at 4-5%GDP, and the second is related to potential external vulnerabilities, connected to doubts whether Polish economy is able to service external debt.



Such a high value in negative international investment position may raise concerns about macroeconomic stability. The consequence of such a significant liabilities to non-residents are income from foreign investment received by non-residents, magnifying the current account deficit. In response to the question whether the volume of the international investment position can be dangerous to economic stability an analysis of its structure may be helpful.



A unique feature of the balance of payments statistics is the possibility to analyze functional categories. The above breakdown indicates the reason behind investment carried out by non-residents. It is widely believed that the safest types of investments include direct investments, which requires a long-term commitment from the non-resident. Withdrawal from direct investment is usually a long and gruelling process. Analysis of the international investment position structure proves that the share of foreign direct investment in the Polish international investment position is relatively high. In Poland, the share of these investments in liabilities stands at almost 50%, while in other countries with similar volume of net investment positions (eg. Turkey, the United Kingdom and Italy) it is much lower. Among countries whose iip is closer to Poland's, but which report a much lower share of direct investment there is Greece with 6% share of direct investments in liabilities and serious external competitiveness issues. In this context, the size of the international investment position in Poland should be assessed as high, but with relatively safe structure of liabilities.

Assessment of risks on non-resident investments, except for analysis based on functional categories, can also be based on an estimation of the size of those investments, which can be quickly withdrawn by foreign investors. Such analysis is based on the assumption that, from the security point of view, rapid outflow of funds may lead to potential currency issues. Estimation of the size of potential short-term capital outflows requires information on, among others, currency structure of investments. In addition, such investments should be characterized by easy tradability. In Polish case this type of investment should include:

- Treasury bonds denominated in PLN;
- Shares of Polish companies, included in portfolio investment;
- Short-term PLN denominated deposits of non-residents at Polish banks;
- Loans granted by non-residents (only repo, sell-buy-back type)

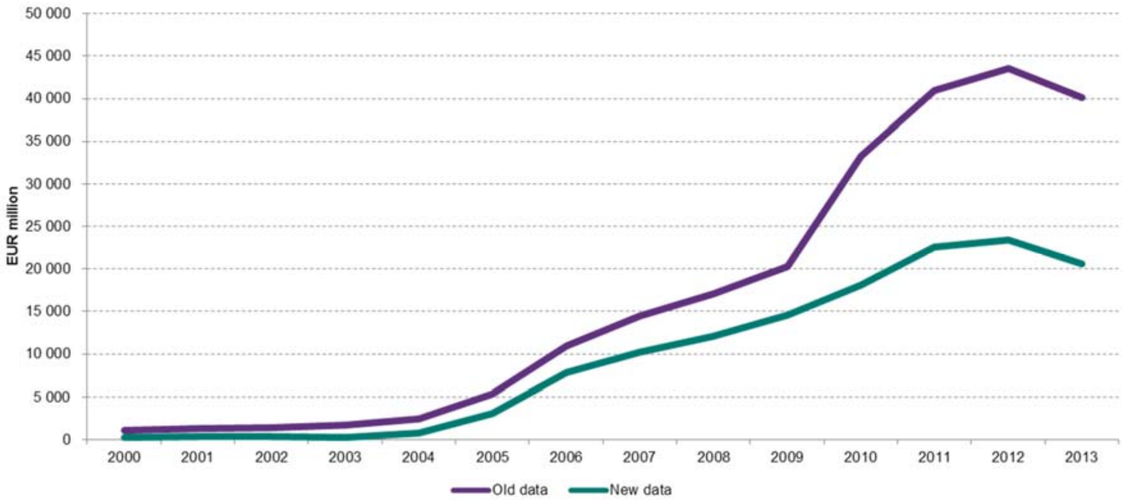
The largest share of non-resident investments is denominated in PLN, T-bonds and, to a lesser extent, equities. According to the international investment position data the market value of Treasury bonds denominated in PLN held by foreign investors amounted to PLN 185 billion. The market value of Polish shares acquired by foreign portfolio investors reached PLN 115 billion. Short-term PLN denominated deposits placed by non-residents in Polish banks and loans granted in PLN were of much lesser importance. The total value of quickly marketable assets denominated in PLN held by non-residents was thus PLN 324 billion, significantly less than foreign exchange reserves held by the central bank. Moreover, other assets should also be taken into account, primarily banks' deposits in foreign banks.

Another approach to analyze the safety of the economy may be an evaluation of the size of the foreign debt due within a given time, usually the following year. This value is usually increased by the projected current account deficit, which allows to estimate the borrowing needs of the economy. This method is often used by rating agencies and the International Monetary Fund to assess country's credibility. Standard presentation of foreign debt data allows to make a distinction between long term and short term debt, but standard breakdown is compiled based on original maturity. In order to estimate either the size of the foreign debt that has to be repaid /is due?/within the next year or refinancing needs, additional amount of long-term debt with maturity up to one year is needed. Our approach enabled us to estimate debt with maturity up to one year is based on some assumptions and with a use of additional information. We collected additional data on remaining maturity of loans. Information on securities was derived from security-by-security database and as far as other financial instruments are concerned we made an assumption that remaining maturity is very short-term (seeing as most of those have short term original maturity). Apart from the volume of short-term debt it is also possible to provide information on the structure of this debt (FDI/others currency etc.).

Important part of external position analysis is an assessment of currency mismatches. New system for bop/iip compilation provides users with data on currency breakdown of external assets and liabilities. What draws attention is a relatively large portion of PLN denominated liabilities in Poland's iip, which substantially lowers external vulnerability. It is connected with large share of FDI equity and government bonds issued in local currency.

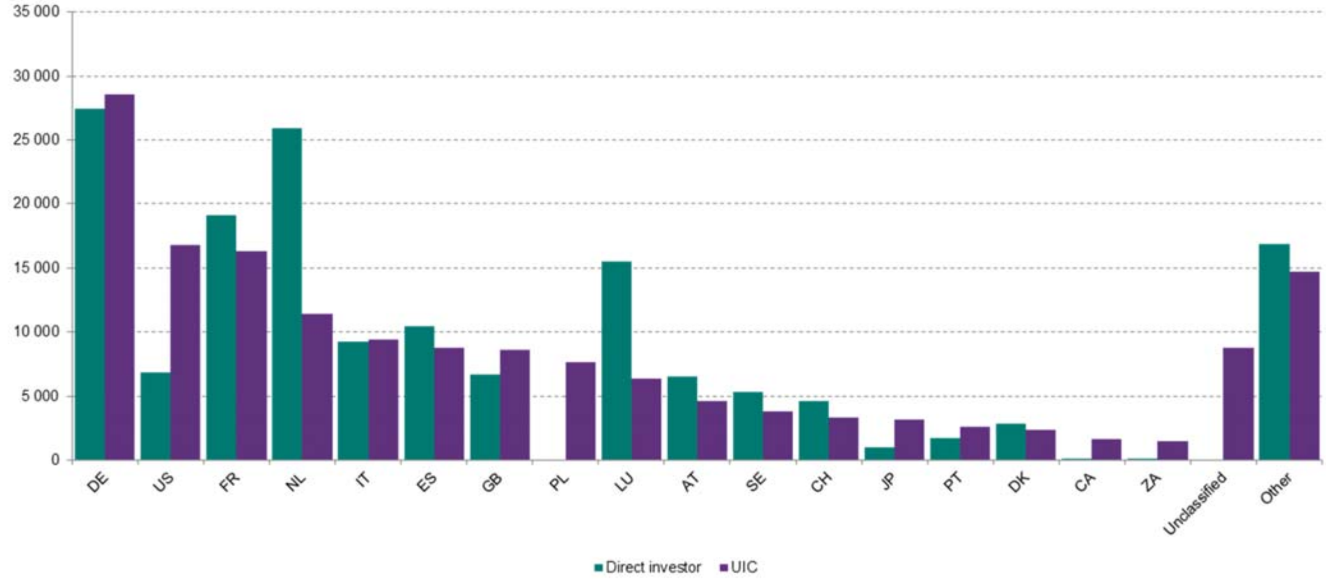
As far as challenges is concerned back data is still an issue. First set of back data has been published with BPM6 data, but NBP still works on: longer time series (now: data from 2004) as well as additional details and data on foreign direct investment. From communication's perspective, change of sign in assets is, in our opinion, another challenge for some of our users.

The largest change in data presented to general public has affected foreign direct investment. Difference between assets/liabilities presentation in the bop/iip and directional principle in FDI statistics created difficulties in understanding the figures. Moreover introduction of extended directional principle resulted in significantly lower FDI data in the case of Polish investment abroad.



In the FDI area important improvement in the possibility of data analysis is an ability to see geographical breakdown based not only on direct investor but also based on Ultimate Investing Country. Our experience shows, that it's useful especially for government users, responsible for economic policy and

Polish Information and Foreign Investment Agency negotiating with investors.



The BPM6 implementation in Poland was difficult and complicated but brought compliance with international standards. It opened new possibilities to users as far as data analysis is concern. New information allows to evaluate the external imbalance of the economy much more precisely than with a single, aggregated indicator. In order to understand the nature of external side of economy users expect additional breakdowns.

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NBP Narodowy Bank Polski

Jacek Kocerka

BPM6 implementation in Poland – communication and analytical challenges

IFC Satellite meeting at the ISI 60th WSC,
Rio de Janeiro, July 24th 2015

BPM6 implementation

- Change from settlement to direct reporting
- New IT system for data collection and compilation
- New system started from 2010
- Consistency with the National Accounts

BPM6 implementation – communication strategy

- Joint seminar with the Central Statistical Office (joint introduction of ESA 2010 and BPM6)
- Seminar for internal and external users
- Press briefing with press release
- Dedicated e-mail address
- Description of changes in the quarterly balance of payments bulletin and annual report on FDI

NBP Narodowy Bank Polski

We protect the value of money

Home page » Statistics » Balance of payments statistics » Revision in the Balance of Payments and IIP Statistics Introduced in 2014

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Press release

Revisions in the Balance of Payments and International Investment Position Statistics Introduced in 2014

- On 30 September 2014 Narodowy Bank Polski will release balance of payments and international investment position data compiled according to new guidelines outlined in Balance of Payments and International Investment Position Manual (BPM6)
- Back data, compiled according to BPM6 guidelines, will be published on the same date.

Revisions in the Balance of Payments and International Investment Position Statistics Introduced in 2014

NBP interest rates

Reference rate	1.50
Lombard rate	2.50
Deposit rate	0.50
Rediscount rate	1.75

more | archive

Exchange rates

Table of 2015-07-16

1 EUR	4.1111
1 USD	3.7694
1 CHF	3.9469
1 GBP	5.8877
100 JPY	3.0419

table A | more

Economic outlook

Inflation Report
Inflation and GDP projection

Monthly data

Balance of payments
Official reserve assets
M3 and its counterparts
Core inflation
Inflation expectations

Quarterly data

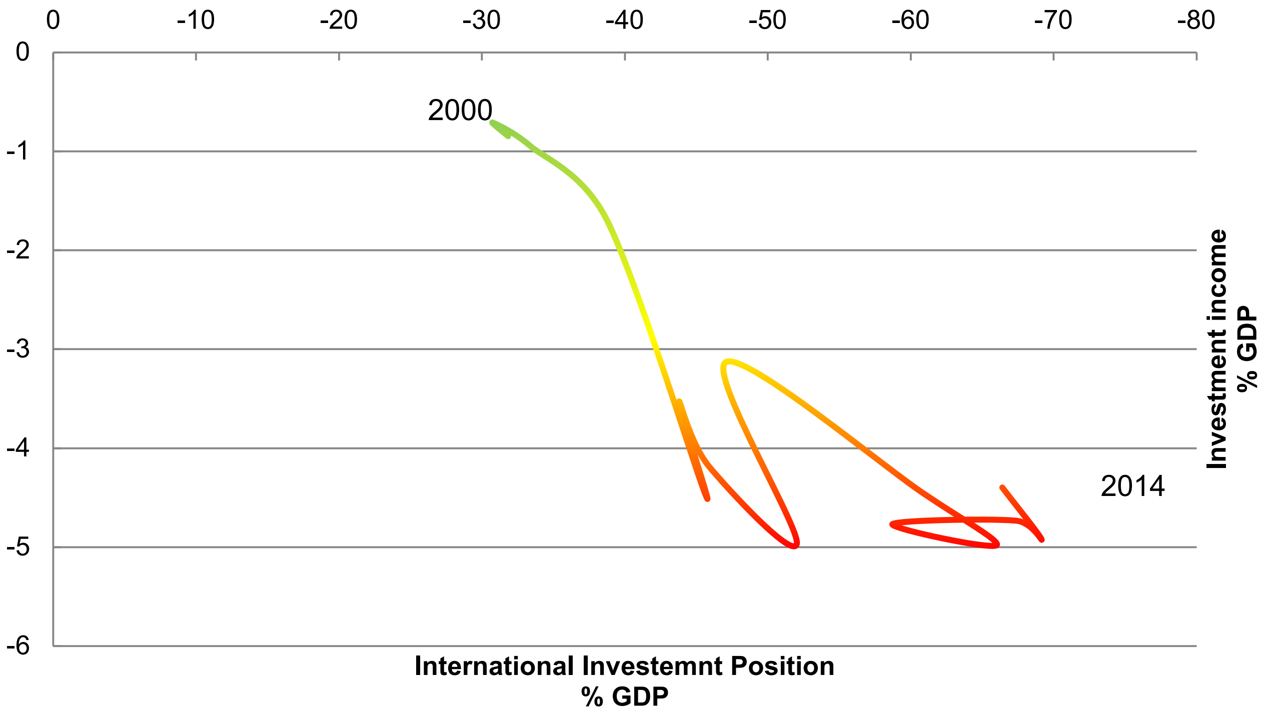
Balance of payments
External debt
International investment position

Analytical possibilities

- Remaining maturity
- Nominal (and market) value for derivatives
- Currency breakdown

Net international investment position

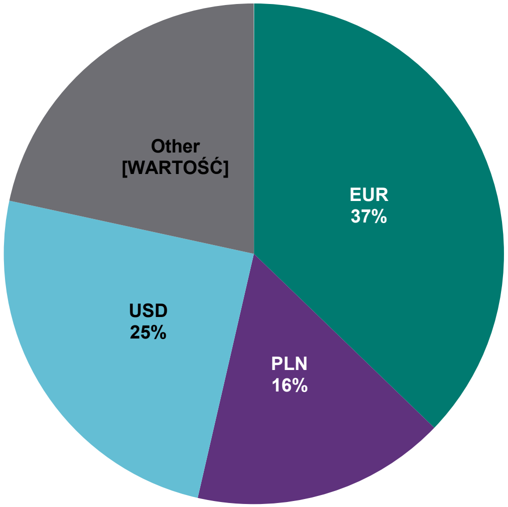
- High negative IIP (67% GDP)
- Large investment income deficit



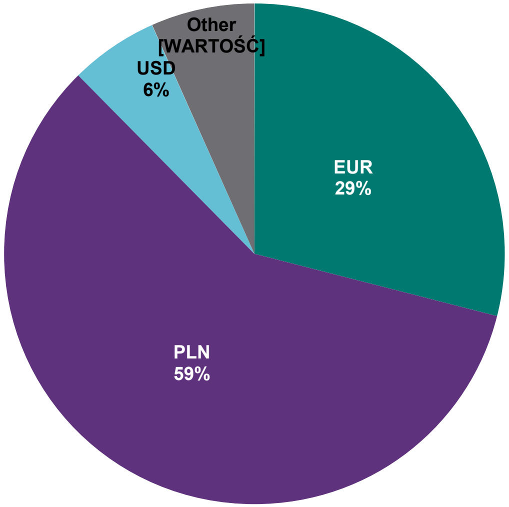
International Investment Position

IIP structure	Large share of FDI in liabilities	Stable source of financing
Non-resident investment structure	Currency, type of financial instrument, within the group/outside the group	Estimation of possible short-term capital outflows
Remaining maturity	Financing needs of the economy and sectors	Analysis of sources of financing

IIP – currency structure



Assets



Liabilities

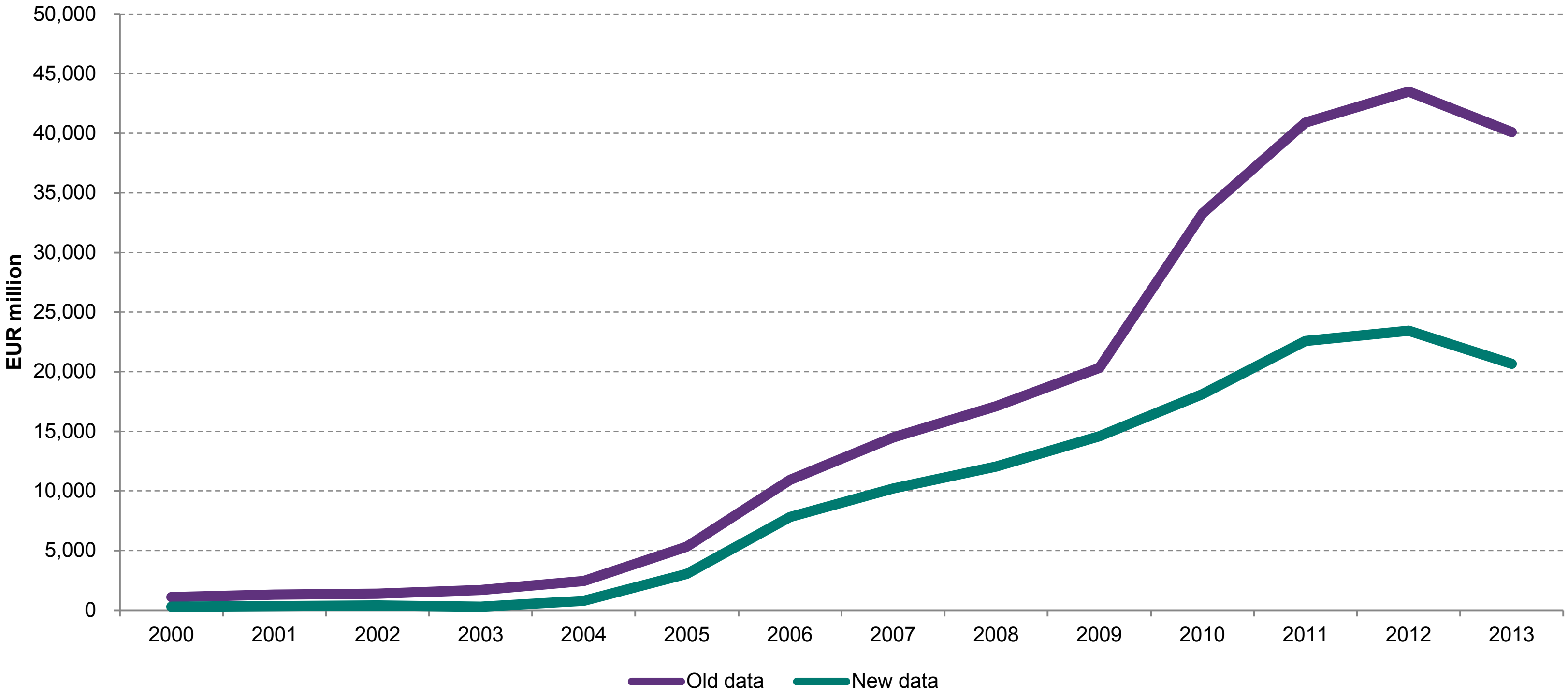
Challenges

- Back data
  - First set of back data has been published with BPM6 data
  - Still working on:
    - Longer time series (now: data from 2004)
    - Further details
    - Direct investment
- Change of sign in assets

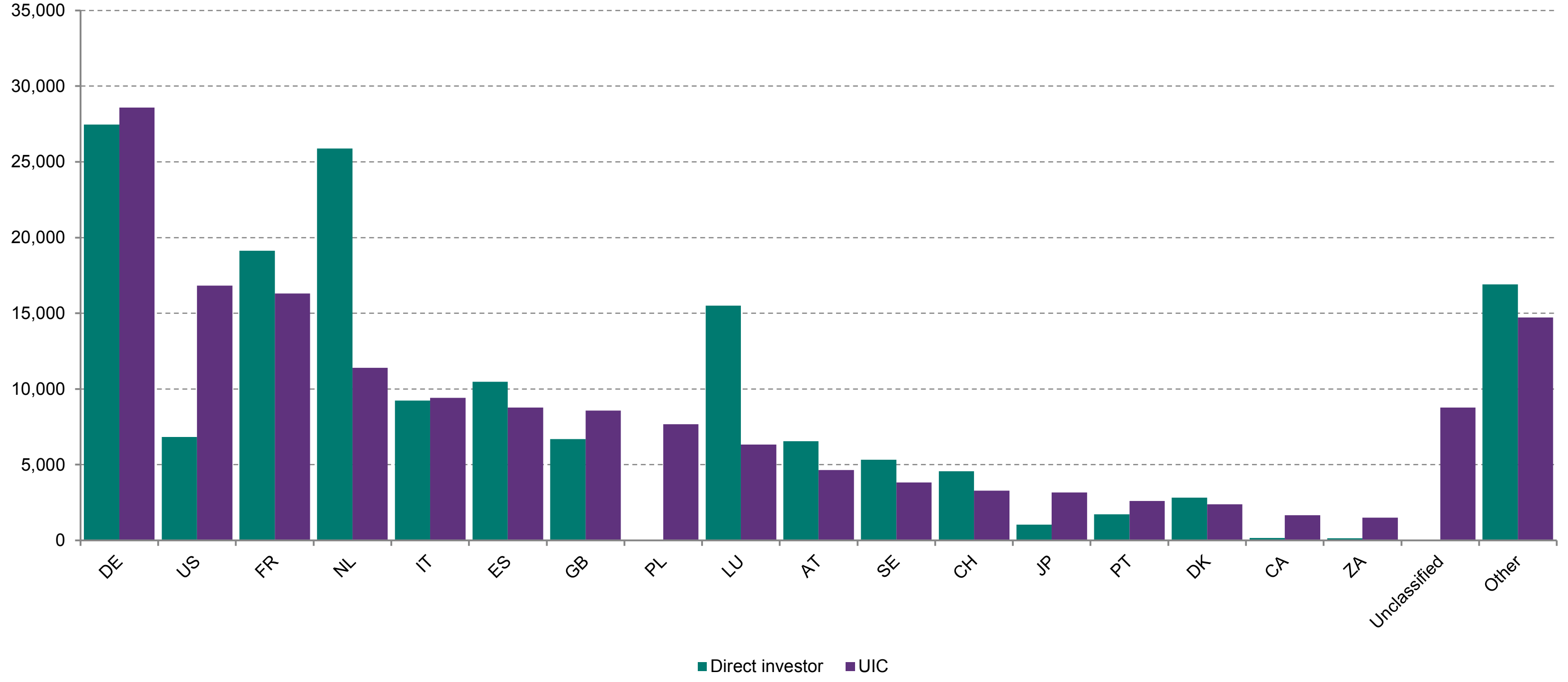
Foreign direct investment

- Assets / Liabilities presentation vs directional principle
  - Large change from previous
- Extended directional principle – transaction between fellows enterprises
- M&A
- Ultimate investing country
- International organisation requirements

Polish direct investment abroad - stock



Ultimate investor



We protect the value of money