

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



Distr.
GENERAL

E/CN.3/253
30 January 1958

ORIGINAL: ENGLISH

STATISTICAL COMMISSION
Tenth session
Item 11 of the provisional agenda

PROGRESS REPORT ON BALANCE OF PAYMENTS STATISTICS

(Memorandum prepared by Balance of Payments Division of
the International Monetary Fund)

1. The Fund's Progress Report presented to the ninth session of the Commission described the system under which countries report balance of payments data to the Fund and the new plan for publishing the data that was introduced with Volume 5 of the Fund's Balance of Payments Yearbook. That report also outlined the plans for revising the Fund's Balance of Payments Manual. This present report covers the Fund's work in the field of balance of payments statistics in 1956 and 1957, the period during which Volumes 7, 8 and 9 of the Yearbook and drafts of the goods and services account and the donations account for the revised Manual were prepared.

I. Statistics Published in the Balance of Payments Yearbook

2. As indicated in the Progress Report to the ninth session of the Commission, the Fund's Yearbooks are designed (1) to publish current balance of payments statements as they become available, (2) to publish revised data periodically, and (3) to make available, with minimum delay, final data for the most recent period that is common to all reporting countries. To achieve these aims, a new publication plan was devised in 1954 that called for issuing periodically a base volume in the Yearbook series followed by two or three supplementary volumes covering new and current data.

The current loose-leaf volume is No. 9. The base volumes are Nos. 5 and 8. These three volumes provide a comprehensive record of the most recent balance of payments data available for the period 1947 through the first half of 1957.

They contain data for about seventy-five countries. Data are included for all of the Fund's sixty-four members, except for two of the most recent ones. In addition, seven statements for dependent territories of members are included, and nine non-members are represented. The eighth and ninth volumes again reflect the increasing amount of balance of payments material becoming available for publication. Data for Ghana, Italian Somaliland, Morocco, and Viet-Nam are included for the first time in the Yearbook series, and the number of countries for which regional data and half-yearly statements are given has increased.

3. The tenth Yearbook is scheduled to be another supplementary volume, issued as a loose-leaf series and covering data for 1956, 1957 and, where available, the first half of 1958, together with comparable data for the first half of 1957.

II. Revision of Balance of Payments Manual: 1956 Draft

4. The Progress Report to the ninth session described the plans to revise the Fund's Balance of Payments Manual. The main changes that were then envisioned were (1) those necessary to co-ordinate the revised Manual with the United Nations and OEEC Systems of National Accounts as revised, and (2) those arising from a new definition of the merchandise account, and a new principle for the regional allocation of merchandise, designed to align the merchandise account more closely with the type of external trade statistics recommended by the Statistical Commission.

5. In January 1956, representatives of the United Nations, OEEC and IMF staffs met at the United Nations Headquarters to review the whole range of problems that arise in co-ordinating the IMF Balance of Payments Manual with the United Nations and OEEC Systems of National Accounts. A preliminary report of the meeting was distributed to the ninth session of the Commission, and a final report was issued by the United Nations Statistical Office in November 1956.

6. Following the January meeting, the Balance of Payments Division of the Fund drafted a revision of the goods and services account and the donations (transfers) account, both global and regional, for the Balance of Payments

/...

Manual. The main revisions proposed at that time* are recorded in paragraphs 7-15 below.

(a) Reconciliation with National Income Accounts

7. As a result of the meeting of representatives of the United Nations, the OEEC, and the IMF, the following changes in the present Manual were proposed by the Balance of Payments Division:

- (i) For one-way transactions involving no quid pro quo, the term "transfers" was substituted for the former term "donations". Certain transactions included in the goods and services account of the present Manual were treated as transfers in the National Accounts Systems; these transactions were shifted in the revised Manual to the transfers account. Such transactions included taxes, consular fees, voluntary (non-contractual) pension payments, and contributions to international organizations for administrative purposes.
- (ii) In the classification of government transactions in goods and services not included elsewhere as distinct from miscellaneous (private) services, the definition of the Government sector was clarified and aligned with the national income concept of general government. Government business enterprises were treated as part of the private sector in the proposed revision rather than as part of the official sector; on the other hand, state and local governments were treated as official rather than as private. The official sector was enlarged to cover official monetary institutions (Treasuries, Central Banks, and similar fiscal agencies), other general government agencies, both central and local, and inter-governmental, non-business organizations. This distinction between the private and Government sector is of limited significance for the part of the revised Manual that has been drafted since transactions in goods and services are generally classified by type rather than by sector; but it will be more significant for the

* Subsequent discussions of these proposals by the staff of member countries or international organizations have led to the reconsideration of some of the proposals. See paragraphs 17-20.

revision of the capital account in which the major classification is now between a private sector and an official and banking sector. In devising the sectoring of the revised capital account, problems of co-ordination with monetary as well as national income statistics will arise.

- (iii) Undistributed profits of direct investment subsidiaries were excluded from the balance of payments proper and shown as a memorandum item. It was thought that this would permit a more consistent treatment of investment income of subsidiaries among various creditor and debtor countries, and would also be more consistent with the basic principles of national accounting since, in the national accounts, undistributed earnings of domestically owned business enterprises are not considered to have been reinvested for account of the stockholders, even in the case of wholly owned subsidiaries. However, in the United Nations and OEEC Systems of National Accounts undistributed earnings of foreign subsidiaries are included in the rest of the world account as factor income and foreign investment in the same way as in the present Manual. In the case of branches, undistributed earnings are included both in the rest of the world account of the national accounts and in the balance of payments as set out in the present Manual, and no changes in this treatment were proposed in the revised version. As a result of subsequent discussions with the staff of member countries, however, the Fund is now reconsidering the whole question of the treatment of undistributed direct investment income (see paragraphs 19 and 20).
- (iv) The capital elements of contractual pension schemes and life insurance were transferred to the capital account.
- (v) Government transactions in non-military fixed assets, e.g., purchases of embassy buildings, were transferred to the capital account. These fixed assets are treated as domestic capital assets in the countries where they are located, and their acquisition by foreigners is construed as an inflow of capital in the same way as the acquisition of commercial real estate by foreigners.

/...

(vi) In addition to investment income, other payments for international factor services as defined in national accounts, e.g., employees' wages, were specified separately.

8. Some factor income payments were formerly defined in the Manual as net of income taxes, largely for statistical convenience; in the proposed revision they were defined gross of taxes paid abroad by the recipients, and international income taxes were entered in the transfer account. Investment income of branches and subsidiaries continued to be recorded net of local taxes paid by such enterprises, since such taxes are not international transactions.

(b) Theory of Real Flows of Resources and Intermediary Transactions

9. The global goods and services account was defined to cover only those transactions in which goods and services are considered to flow into or out of a country's economy. Transactions in which a country acts only as an intermediary between two foreign countries, i.e., buying goods and services in one foreign country and selling them in another foreign country, without importing them, were not included on a gross basis. Only the net profit was included.

10. On this theory, gross merchandise transactions abroad, which in the present Manual are included in the global goods and services account, were omitted in the draft revision, and only the net balance on such transactions was included. The real flows of goods and services were allocated regionally by country of consignment-ownership rather than by country of purchase-sale. In the regional balance of payments, adjustments for merchandise transactions abroad and other intermediary transactions were made outside the account for real flows of goods and services.

(c) Goods Exported and Imported for Processing

11. Goods are frequently exported from one country to another for further processing. According to the general principles of the present Manual, the gross values of such goods should be entered as exports of the producing country and as imports of the further processing country only if ownership of the goods changes from one country to the other. However, this ownership criterion cannot always be applied precisely, since much production and processing is carried on within direct investment companies where a change of ownership from

/...

one unit to another is a nominal accounting matter. Furthermore, even if the change of ownership criterion could be applied, it would not always give a significant record of the flow of real resources from one country's economy to another. The economic activity in the processing country is substantially the same whether or not it acquires ownership to the goods. Also the value added by processing to goods of which a country does not acquire ownership may be considerably more than that added to goods purchased and imported for minor processing, e.g., sorting and packing, and then re-exported. On the ownership criterion, the former goods would be excluded from merchandise trade, and the latter included. For these reasons, a number of the most important cases of goods sent abroad for further processing were treated in the proposed revisions of the Manual as if ownership to the goods always changed from the producing to the further processing country. This proposed treatment, however, is now being reconsidered in the light of objections from the OEEC staff (see paragraph 18).

12. Like other merchandise transactions, exports and imports of goods for processing without a change of ownership to and from the processing country were allocated regionally by the countries of real flows. However, since the financial settlements on account of such transactions do not coincide with this recording, adjustments were provided for converting the regional record of the transactions on a real flows basis to a record of financial settlements by countries.

(d) Military Transactions

13. The present Manual does not give explicit instructions for the treatment of military aid grants as distinct from other grants or for other transactions arising in connexion with international military organizations such as NATO and SEATO, which began operations after the Manual was prepared. The present Manual also does not discuss the treatment of costs borne by a country's Government for foreign military forces stationed in the country (occupation costs) and the corresponding goods and services provided to the forces.

14. Instructions for the treatment of military aid and other special military expenditures (except occupation costs) were given in the Fund's annual requests sent to countries for their balance of payments reports. These instructions were largely based on those given by the OEEC in its requests for

/...

balance of payments reports. They involved several exceptions to the underlying principles of the Manual, notably that both military equipment exported or imported under grants and the corresponding grants were to be omitted from the balance of payments, although they are clearly international transactions. In the proposed revisions, however, all military transactions other than occupation costs were in principle treated according to the general rules. Where it was not feasible to report military transactions in accordance with the general rules ad hoc exceptions would be made, as is frequently done for other types of transaction.

15. With regard to "occupation costs", neither the goods and services provided by countries to foreign military forces stationed in those countries nor the costs of providing such goods and services, whether they are provided to occupation forces or under a common defence programme, were included in the balance of payments proper in the proposed revisions. Rather, the goods and services were shown as a memorandum item. This treatment was adopted because it was not found possible to devise generally applicable rules for classifying the costs borne by the Government of the country where foreign forces are stationed. The goods and services provided to foreign forces are clearly international transactions in goods and services. The OEEC System of National Accounts as recently revised proposes to treat the settlement for them as a purchase of defence services, and this solution has also been tentatively accepted by the United Nations staff. However, in certain circumstances, if not in all, classification of the settlement as a transfer would seem more appropriate. Any classification of the cost as a payment for services would partly depend on political rather than economic considerations - e.g., on the degree to which the costs are borne voluntarily and the determination of whether the services of the forces are primarily for the benefit of their own country or the country where they are stationed.

III. Subsequent Discussion of the 1956 Draft

16. The draft for the revised Manual was presented to the Fund's statistical correspondents at a meeting held in Washington, D.C. in September 1956. One session of the meeting was devoted to a discussion of the draft, and three main topics were covered: (1) the co-ordination of the Manual with the

/...

United Nations and CEEC Systems of National Accounts, (2) the definition of merchandise trade, and (3) the definition of direct investment.

17. On the first two points the proposals in the draft were generally accepted. However, some questions were raised on the proposal to classify goods and services regionally by the country of real flows rather than by the country of financial flows (settlement). It was pointed out that considerable interest attaches to the record of financial flows and that the country of consignment-ownership would be difficult to ascertain for exports shipped on consignment to one country and subsequently reconsigned to another country.

18. Although the proposals regarding the treatment of goods exported from one country to another for further processing were not questioned at the meeting, they have been challenged by the staff of the CEEC, and the Fund staff is prepared to reconsider this question before the revised Manual is completed. It attaches considerable importance, however, to treating processing transactions in the same way in both the external trade statistics and the balance of payments. In the external trade statistics, goods sent abroad for processing are treated as merchandise exports or imports.

19. The discussion of direct investment was concerned with the definition to be used in drafting the capital account for the revised Manual. The desirability of excluding undistributed profits of subsidiaries from the balance of payments proper and entering them in a memorandum item was questioned. It was argued that the balance on account of capital transactions (or that on account of goods, services and donations) as shown in the balance of payments, should dovetail, as far as possible, with the change in the debtor-creditor position of the compiling country. By including undistributed profits of subsidiaries one would come nearer to that goal. Furthermore, total profits of branches are included in the balance of payments, and it was argued that there is no real difference between a branch and a subsidiary wholly owned by one person or enterprise. In both cases, the total profits accrue to the owner, and it is a deliberate decision on his part whether or not the profits should be distributed. Whether he distributes the full profits as dividends to

/...

himself and reinvests a portion of them, or whether he reinvests that portion direct without first distributing it as dividends, makes little difference. In order to give a full picture of the growth in international investment, it is necessary to include undistributed profits in the figures for both profits and capital movements.

20. The Fund staff indicated that they would reconsider the proposal to record undistributed profits of subsidiaries in a memorandum item. The final decision would depend on the choice of definition for direct investment, which would be taken up in the course of the revision of the capital account.

21. In October 1956, the draft covering the goods and services account and the transfer account for the revised Manual was circulated to those statistical correspondents unable to attend the meeting and to the interested United Nations and OEEC technicians.

22. Several differences remained between the draft and the revised Manual and the revisions contemplated at that time for the United Nations and OEEC Systems of National Accounts. One major difference was that exports and imports under military grants and the corresponding grants were to be included as international transactions in the Manual but excluded from the rest of the world account of the national accounts in the two systems. This difference in treatment had been agreed at the discussions between the United Nations, IMF and OEEC staffs in January 1956. As a result of further discussions after the draft Manual was issued, the United Nations and OEEC participants have agreed that international transactions under military aid programmes should in principle be included in the rest of the world account.

23. Another difference with the national accounts is the different content of the category "goods and services" in the balance of payments and the rest of the world account. The Fund has proposed that, in the rest of the world account, the term "goods and non-factor services" should replace the term "goods and services" and that the term "net factor services" should replace the term "net factor income payments to the sector", thus giving a combined item that could be called "goods and services" and would agree with the major category of that description in the balance of payments. The Fund would be prepared to subdivide total goods and services into these two components in its balance of payments tables. It is still discussing this proposal with the United Nations and OEEC.

/...

24. At the United Nations-OEEC-IMF meeting in January 1956, the Fund participants indicated that while they recognized the analytic purpose underlying the distinction between current and capital international transfers in the national accounts, they did not consider the concepts sufficiently clear to permit two major categories of this character to be set up in the basic tables of the Balance of Payments Manual. They also considered the title "Capital Transfers" to be seriously misleading, since all transfers are current transactions if "current" means "non-capital" and capital movements are defined as changes in assets and liabilities resulting from economic transactions (as distinct from mere valuation changes). This is the definition of capital movements used in the Balance of Payments Manual; and no other definition has been proposed by the United Nations or OEEC staff. Goods, services and transfers are all non-capital transactions in this sense.

25. The Fund has also pointed out that the treatment of private consumer and general Government interest in both the Manual and the rest of the world accounts of the two national accounts systems is at variance with the present concept of such interest in the systems. Such interest is entered as a payment for factor services in the balance of payments and the rest of the world accounts, but the systems state that it should be treated like a transfer payment and the SNA defines it as a transfer. The Fund is continuing its discussions with the United Nations and the OEEC with a view to eliminating this difference in concept.

26. When the draft covering goods, services and transfers in the revised Manual was circulated in October 1956, it was hoped that a draft for the capital account would be prepared early in 1957. However, it was subsequently thought necessary to give priority to bringing out Volumes 8 and 9 of the Balance of Payments Yearbook. In order to publish the two volumes in one year, work on the revised Manual had to be postponed until 1958.

27. In preparing the draft of the capital account it is particularly necessary to bear in mind the need for balance of payments categories that will fit the purposes of monetary analysis as well as fit the categories of the national accounts. The problem of co-ordinating the national accounts and monetary analysis, involving as it does the detailed presentation of the banking sector and of asset-liability accounts, extends beyond the scope of this report.

/...

IV. Training Programme

28. As mentioned in earlier progress reports, the Fund conducts a training programme in which an extensive course in balance of payments techniques is given to balance of payments staff from member countries. Nine such courses attended by sixty-nine trainees from forty-two member countries have now been completed. The number of trainees that may attend each year's programme has been increased this year, and the current balance of payments course is being attended by thirteen trainees from thirteen countries.
