IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

ISSUES PAPER (BOPTEG) # 16B

MERCHANTING:

SOME NUMERICAL EXAMPLES OF THE PRESENT AND PROPOSED TREATMENTS

Prepared by Hidetoshi Takeda, IMF Statistics Department

May 2005

Some Numerical Examples of the Present and Proposed treatments of Merchanting

Introduction

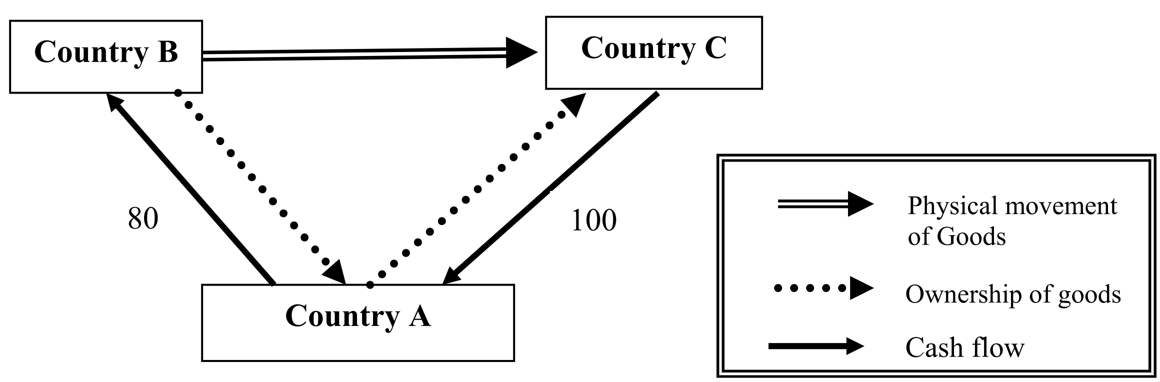
Balance of Payments Manual, fifth edition (BPM5) defines merchanting as the purchase of a good by a resident (of the compiling economy) from a nonresident and the subsequent resale of the good to another nonresident; during the process, the good does not enter or leave the compiling economy. The difference between the value of goods when acquired and the value when sold is recorded as the value of merchanting services provided (paragraph 262).

BOTEG issues paper # 16A proposes to record merchanting transactions as trade in goods, and indicates the shortcomings of the current treatment. This paper complements the issues paper by providing numerical examples below to show the difference between the present and proposed treatment.

Case 1: Basic case

The following example illustrates the basic principles of the present and proposed treatments. All transactions occur within a recording period, with the goods physically moving from Country B to Country C directly, and not entering into Country A. It is assumed that all transactions are settled by currency and deposits.

Value of goods purchased by a resident of country A' from a resident of B'	80
Value of goods A' resells to a resident of C'	100



Present treatment

	Credit	Debit
Country A		
Services: Merchanting	20	
Currency & deposits		20
Country B		
Goods	80	
Currency & deposits		80
Country C		
Goods		100
Currency & deposits	100	
Global balance[1]		
Goods	80	100
Merchanting	20	
Currency & deposits	100	100

Proposed treatment

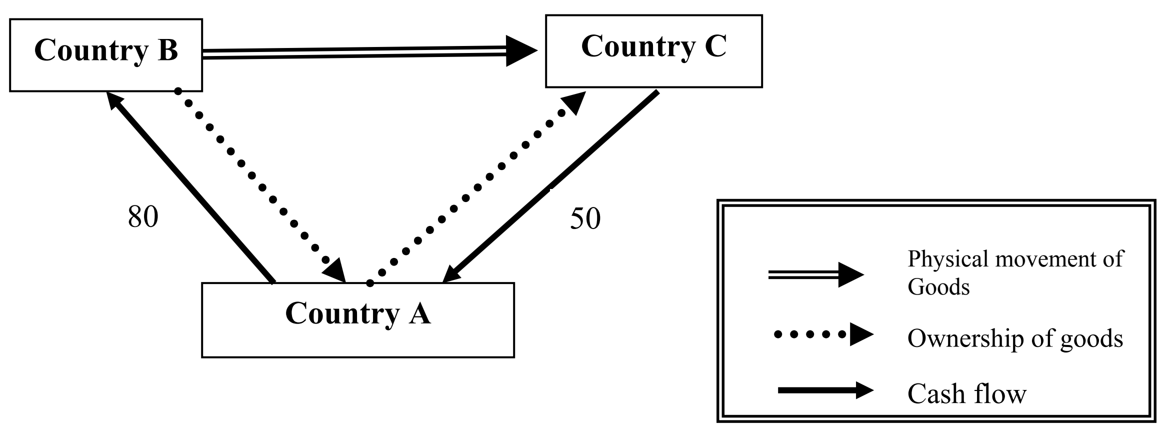
	Credit	Debit
Country A		
Goods under merchanting	100	80
Currency & deposits		20
Country B		
Goods	80	
Currency & deposits		80
Country C		
Goods		100
Currency & deposits	100	
Global balance		
Goods	180	180
Goods under merchanting	100	80
Currency & deposits	100	100

[1] Merchanting is recorded only in the country A (the exporter of merchanting services). This causes global imbalances in goods and services as no debit entry in merchanting is recorded.

Case 2: Holding gains/losses occur[2]

The following example illustrates the principles of the present and proposed treatments if holding gains and losses occur. Before A' resells the goods to B', the price decreases by up to 30. All transactions occur within a recording period, with the goods physically moving from Country B to Country C directly, and not entering into Country A. It is assumed that all transactions are settled by currency and deposits.

Value of goods purchased by a resident of country A' from a resident of B'	80
Value of goods A' resells to a resident of C'	50



[2] The above case treats holding losses; the recording principles are the same for a holding gain.

Present treatment

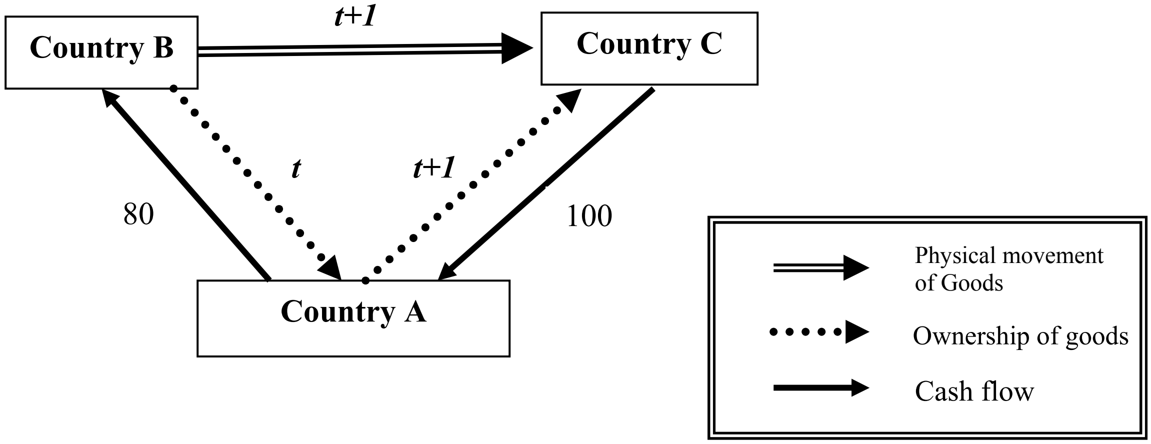
	Credit	Debit
Country A		
Services: Merchanting	-30	
Currency & deposits	30	
Country B		
Goods	80	
Currency & deposits		80
Country C		
Goods		50
Currency & deposits	50	
Global balance		
Goods	80	50
Services: Merchanting	-30	
Currency & deposits	80	80

Proposed treatment

	Credit	Debit
Country A		
Goods under merchanting	50	80
Currency & deposits	30	
Country B		
Goods	80	
Currency & deposits		80
Country C		
Goods		50
Currency & deposits	50	
Global balance		
Goods	130	130
Goods under merchanting	50	80
Currency & deposits	80	80

Case 3: Transactions that straddle recording periods

The following example illustrates the principles of the present and proposed treatments if transactions straddle the recording period. The value of the transactions is the same as in the basic case. However, resident of A purchases from the resident of B in time **t** and resells the goods to a resident of C in time ***(t+1)***. Goods physically move from Country B to Country C directly, and not entering into Country A. It is assumed that all transactions are settled by currency and deposits.



Present treatment

a) period t	Credit	Debit
Country A		
Goods		80
Currency & deposits	80	
Country B		
Goods*	80	
Currency & deposits		80
Global balance		
Goods	80	80
Currency & deposits	80	80

b) period (t +1)	Credit	Debit
Country A		
Goods		-80
Services: Merchanting	20	
Currency & deposits		100
Country B		
Country C		
Goods		100
Currency & deposits	100	
Global balance		
Goods		20
Services: Merchanting	20	
Currency & deposits	100	100

Proposed treatment

a) period t	Credit	Debit
Country A		
Goods under merchanting		80
Currency & deposits	80	
Country B		
Goods*	80	
Currency & deposits		80
Country C		
Global balance		
Goods	80	80
Goods under merchanting		80
Currency & deposits	80	80

b) period (t +1)	Credit	Debit
Country A		
Goods under merchanting	100	
Currency & deposits		100
Country B		
Country C		
Goods, debit		100
Currency & deposits	100	
Global balance		
Goods	100	100
Goods under merchanting	100	
Currency & deposits	100	100

* It is assumed that country B records the transactions of the relevant goods based on "change of ownership", rather than physical movement of the goods. In practice, many countries record trade in goods based on trade statistics, under which data are compiled based on goods physically cross the customs. If the country B records exports based solely on customs data, the country might record the export of the related goods in period (t+1), when the goods actually cross the customs. In such a case, errors and omissions would be recorded under country B's balance of payments in both period for balancing currency & deposits (t) and goods credit (t+1). Alternatively, the timing problem could show up in trade credit, if the countries derive trade credit from the difference between goods transactions from customs and those from banking system data