IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

ISSUES PAPER (BOPTEG) # 27

NONMONETARY GOLD

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I. Current international standards for the statistical treatment of nonmonetary gold

The IMF Balance of Payments Manual Fifth Edition (hereafter, BPM5) defines nonmonetary gold as follows. "*Nonmonetary gold* covers exports and imports of all gold not held as *reserve assets* (monetary gold) by the authorities. *Nonmonetary gold* is treated the same as any other commodity and, when feasible, is subdivided into gold held as a store of value and other (industrial) gold" (See BPM5, paragraph 157).

The IMF Balance of Payments Compilation Guide indicates that, for non-monetary gold that does not cross frontiers, the difference between the value of goods when acquired and resold should be recorded under merchanting services (See paragraph 138).

II. Concerns and shortcomings regarding the current treatment

The volume of gold merchanting reported in Japan is substantial[1]. However, a large portion of these transactions consist of dealing transactions undertaken to obtain capital gains or to collateralize loans. The inclusion of these amounts in the accounting of goods on a gross basis or in the accounting of services on a net basis can obscure trends and developments in trade.

III. Possible alternative treatments

- Non-monetary gold should be treated differently from other goods, primarily for the following two reasons.

1. Gold is a special good, in that it has characteristics of both goods and financial assets.

[1] During 2003, Japan's gross transactions of non-monetary gold not involving physical exports and imports amounted to 7341 billion yen in imports and 7373 billion yen in re-exports. These amounts were equivalent to 45.6% and 43.7% of gross merchanting transactions, respectively. Similarly, these amounts were equivalent to 18.5% and 14.2% of total merchandise exports and imports, respectively.

2. As in the case of financial assets, dealing transactions in gold are widely undertaken without any physical exports and imports, through the use of the books of gold dealers.

- Transactions in non-monetary gold *not involving physical exports and imports* can be treated in various ways. Two options are outlined below.

1. Separating transactions in nonmonetary gold into real-demand transactions (jewelry, industrial uses) and dealing transactions (e.g. aimed at obtaining capital gain), and applying different accounting methods to the two categories.

Note: For example, the former can be categorized as goods and accounted for on a gross basis, and the latter can be treated as margin and accounted for on a net basis. Alternatively, transactions in non-monetary gold can be treated as financial transaction and "**Financial Gold**" can be created as a new component of the "Financial Account" to be accounted for on a net basis. In connection with the "Financial Account" it will be necessary to clarify the definition of "**Financial Gold**."

2. Accounting for the margin on acquisition and resale price as a service.

Note: In the case of dealer-led dealing, consideration must be given to determining who is providing a service to whom.

IV. Questions/Points for Discussion

1. *Do BOPTEG members consider it feasible to separate nonmonetary gold transactions into real-demand transactions and dealing transactions?*

2. *What do BOPTEG members think about reconciling the issue by recording nonmonetary gold involving physical exports and imports under goods and nonmonetary gold not involving physical exports and imports under the Financial Account?*

3. *Do BOPTEG members have any views on creation and definition of "Financial Gold?"*

References

International Monetary Fund (1993) *"Balance of Payments Manual, Fifth Edition"*
International Monetary Fund (1995) *"Balance of Payments Compilation Guide"*