Statistical Discrepancies in the World Current Account

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In theory, the sum of world current account balances should be zero. In practice, it never is, and discrepancies can be large. Where do they come from, and what can be done about them?

THE SUM of current account balances—surpluses/deficits of countries and international organizations—should, in theory, be zero for the world as a whole (the same principle applies to the global capital and financial accounts). However, in practice, inconsistencies in the ways individual countries compile their data, and errors and omissions in the data, lead to statistical discrepancies.

The statistical discrepancy in the global current account has been large enough, at times, to be a cause of concern to the IMF, because it may distort the data that provide the basis for the projections in the WEO exercise as well as for the IMF's surveillance activities. In the early 1980s, the IMF organized a working party to investigate the principal sources of statistical discrepancies and to recommend ways to improve statistical practices.

In 1982, the statistical discrepancy in the world current account exceeded $100 billion—the equivalent of 2 percent of total world current account credits and debits. It narrowed in the 1980s, but again reached $100 billion in the early 1990s before declining to about $80 billion annually during 1993–95 (see chart). In 1995, the discrepancy was equivalent to only 0.5 percent of the sum of world current account credits and debits. However, this decline masked growing discrepancies in some of the components that go into the totals.

Investment income

The IMF's 1987 current account study focused on investment income transactions—which include, among other things, interest and dividend earnings and payments—where the discrepancy between recorded credits and debits had increased considerably in the early 1980s. The discrepancy between investment income credits and debits (excluding reinvested earnings from direct investment) has steadily increased since then to become the largest contributor to the overall discrepancy in the world current accounts. It reached $166 billion in 1995, which is equivalent to 7 percent of recorded income credits and debits (see table).

The current account study concluded that the most important factor in the growth of the discrepancies in global investment income data in the early 1980s was the emergence of a large body of cross-border assets recognized by the debtor countries but not by the creditor countries, coupled with higher interest rates after 1979. The study found that the reported data on capital flows for 1977–83 showed a cumulative net inflow of nearly $300 billion (apart from reinvested earnings), indicating that countries receiving capital were in a better position to measure the flows than the countries where the creditors resided. This bias in the recording of financial flows continues today; at the world level, recorded inflows (liabilities) exceeded outflows (assets) by $122 billion in 1995 (see chart), which is largely related to the recording of portfolio and other investment transactions, excluding direct investment. This surplus of recorded inflows (liabilities) in the financial account is consistent with the sign of the discrepancy on investment

Discrepancies in the world current account
(billion dollars)

	1990	1991	1992	1993	1994	1995
Current account balance	**-127.8**	**-120.0**	**-114.1**	**-80.4**	**-78.8**	**-82.4**
Trade balance	16.1	29.7	44.3	73.3	96.9	114.6
Services balance	-44.9	-45.7	-35.5	-26.9	-17.8	-30.2
Of which transportation	-46.7	-48.6	-53.4	-55.6	-59.7	-72.6
Income balance	-66.6	-69.8	-81.3	-82.1	-102.5	-123.2
Of which investment income [1]	-110.0	-109.1	-109.5	-117.0	-137.4	-166.2
Current transfers balance	-32.4	-34.1	-41.7	-44.7	-55.4	-43.5

Source: IMF, *Balance of Payments Statistics Yearbook*, 1996.
[1] Excludes reinvested earnings on direct investment.

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income transactions, where debits exceed credits.

In December 1989, the IMF's Executive Board authorized a second working party to do a follow-up study of global balance of payments statistics, this time to evaluate statistical recording practices relating to the measurement of international capital flows.

Using the international banking statistics compiled by the BIS, the two IMF working parties determined that a substantial part of the global discrepancies in data on investment income and nonbank capital flows was attributable to cross-border activities with nonresident banks. The two groups determined that the BIS statistics were a useful source of information that compilers could use to improve their balance of payments estimates. They recommended that national compilers systematically compare national data on nonbank capital flows (and associated stocks of foreign assets and liabilities) with BIS banking statistics and, where appropriate, use these statistics in compiling balance of payments estimates. By applying appropriate yields to the outstanding positions, compilers are able to derive estimates of interest receipts and payments vis-à-vis banks abroad. The IMF's Statistics Department and its Committee on Balance of Payments Statistics are working with the BIS to refine the international banking statistics to improve their use in balance of payments compilation. Work is also under way to make these statistics more widely available to compilers and to provide compilers with methodological information that will make use of these statistics in balance of payments compilation easier.

A second initiative that could help reduce the large discrepancy in the global financial account and also improve investment income estimates is the 1997 Coordinated Portfolio Investment Survey, which is being organized under the auspices of the IMF in connection with the work program of the IMF's Committee on Balance of Payments Statistics. The Coordinated Survey will, like the BIS banking statistics, generate extensive information on cross-border holdings of foreign claims (bond and equity securities), which the IMF will disseminate to its member countries. More than 30 countries have indicated that they will participate in the survey.

Merchandise trade

In recent years, merchandise trade has accounted for the second largest discrepancy in the world current account. This discrepancy has increased from less than $20 billion per year, on average, in the 1980s, to $115 billion in 1995—just over 1 percent of gross trade flows. Unlike the other components of the world current account, global data on trade flows show an excess of recorded credits (see table). One reason is the introduction in 1993 of a new trade reporting system in the EU as a consequence of the development of the single European market. On January 1, 1993, Intrastat—a survey of businesses that engage in trade with other EU member states—was introduced to replace the customs-based recording system employed before 1993. The published trade statistics on intra-EU trade show that exports exceeded imports by about $65 billion in 1995 (up from about $40 billion annually in both 1993 and 1994). Eurostat and many other users believe this discrepancy reflects an underestimation of intra-EU imports. Countries are looking into ways to improve the quality of the outputs from the system. Consideration is also being given to a "one flow" system, where the figures collected by one country are used by the partner country as its source of information.

Services

Historically, recorded debits from international services transactions have exceeded corresponding credits. Overall, discrepancies have been relatively small in recent years, but they have widened considerably in certain sectors, notably transportation services (mainly freight and other distributive services associated with the carriage of international trade). Recorded transportation debits exceeded credits by $73 billion in 1995, compared with $47 billion in 1990. The 1987 current account study determined that while all countries can readily compile the amount paid to foreign-operated carriers to cover freight on imports, several economies with large maritime interests (notably Greece, Hong Kong, and those of Eastern Europe) do not report the corresponding freight earnings.

Current transfers

Lastly, the global balance of payments data on current transfers also show a persistent excess of recorded debits over credits, amounting to $44 billion in 1995. A significant component of this imbalance may be government transfers, such as official aid disbursements, which recipient countries may have difficulties valuing. F&D

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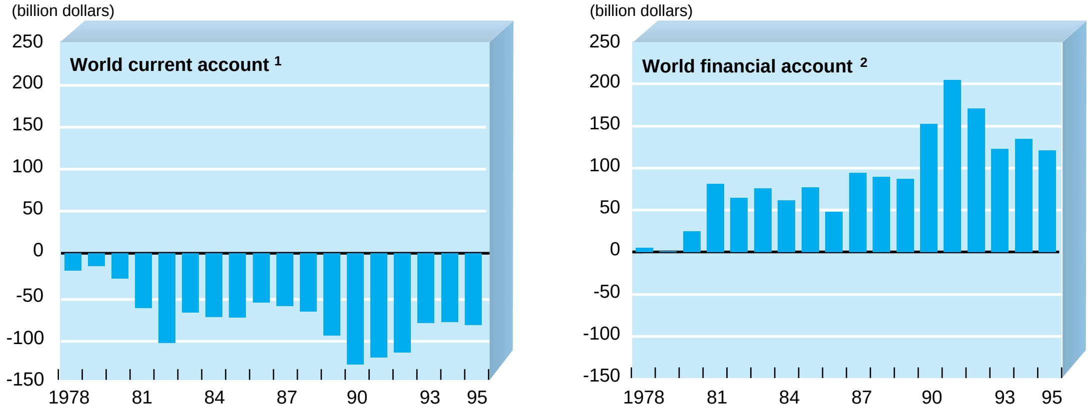

Source: Compiled from selected IMF publications.
[1] Excludes capital transfers from 1988.
[2] Adjusted to exclude reinvested earnings. Includes IMF staff estimates for earlier years.