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PROGRESS REPORT ON BALANCE OF PAYMENTS STATISTICS
(Memorandum prepared by the International Monetary Fund)

1. Without accurate, comprehensive and current information on its members' international transactions, the International Monetary Fund would be unable to function. Decisions of the Fund's Executive Board relating to use of the Fund's resources, to the establishment of par values and to the maintenance of restrictive exchange practices are all necessarily based on trends and prospects in members' balances of payments. In this respect, the Fund's purpose in collecting and processing balance of payments data differs fundamentally from that of the League of Nations, whose Economic Intelligence Service laid the foundations of international co-ordination in the field of balance-of-payments statistics during the inter-war years. The purpose of the League was primarily that of assembling, in a conveniently standardized form, the growing mass of statistical data assembled by individual countries in the process of formulating their increasingly intricate foreign economic policies. Possessing none of the operational responsibilities subsequently conferred on the Fund, the League's demands for statistical information were relatively limited in scope and comparatively simple in form. No urgent need was felt to adapt the League's standard reporting form to the requirements of individual countries in different stages of development, nor even to groups of countries, nor was it considered necessary to effect any detailed reconciliation of estimates submitted to the League with data arising from other sources. Finally, it was not generally possible for the League to establish the intimate personal contact with balance-of-payments technicians in the reporting countries which is essential to maintaining a regular flow of accurate, consistent and meaningful data.
2. The Fund, endowed by its Articles of Agreement with both operational and statistical responsibilities in the field of international monetary relations, has profited considerably from the League's efforts and experience in assembling data covering for the most part the years 1926 to 1945. Its own pragmatic interest in the statistics and its much larger resources have, however, enabled it to be instrumental in achieving substantial progress in this field. The coverage and comprehensiveness of international payments statistics have been greatly extended, the flow of information has become a continuous, all-year-round process, and, as the significance of the balance of payments as an integral part of the system of social accounts and as an instrument of economic policy have been more widely realized, many important changes and refinements have been, and are being, introduced into the form of its presentation. The recent achievements in all these directions, and the paths along which further progress is anticipated, are described in some detail in the remainder of this memorandum.

I. Groundwork of the Fund's Activities

3. The Fund took, as the starting point for its balance-of-payments work, the recommendations prepared by the Sub-Committee on Balance of Payments Statistics of the League of Nations Committee of Statistical Experts, following a meeting held in Princeton, N.J., in June 1945. The League's recommendations, subsequently published by the United Nations as a "Note on Balance of Payments Statistics", contained a series of standard tables designed for reporting the various categories of international transactions and for presenting the balance of payments as a whole. Many of the basic principles of this document, incorporating the conceptual changes and methodological refinements which the League's years of experience had shown to be desirable, were adopted in the Balance of Payments Manual, the preparation of which formed the Fund's first major task in this field.
4. The Manual, although it had the same broad purpose as the report of the League Sub-Committee, represented more than a practical implementation of the ideas of the report. In the first place, the Fund's special interest in the factors underlying the various financial transactions called for a much more systematic elaboration of the capital accounts than that embodied in the report. Secondly, because of the vital necessity of avoiding ambiguities in the Fund's requests for balance-of-payments data, the schedules of the Manual were generally developed in much more detail than those of the report and were supplemented with a set of explanatory notes giving precise definitions of each item. Thirdly, the Manual included a comprehensive discussion of the basic concepts of the balance of payments and of their application in borderline cases. It was clear that this endeavour required, at every stage, the close co-operation and practical advice not only of the United Nations, but also of statistical experts in the Fund's member countries whose methods of obtaining and classifying data might require substantial revision if the Fund's schedules were to be adopted. This co-operation was actively sought and readily given, and added greatly to the practical and methodological usefulness of the proposed system of accounts. The first edition of the Manual, published in January 1948, was issued after being reviewed with a widely representative group of economists and technical experts summoned to a balance-of-payments conference in Washington in September 1947.

5. One further measure was considered essential before the Manual could be used to its fullest advantage. Despite the necessity for devising a standard schedule to ensure the maximum degree of homogeneity in data reported from many countries, it was clear from the outset that differences from country to country in the character and relative importance of particular categories of items as well as in existing statistical procedures could only be met by permitting considerable flexibility in the use of the schedule by individual countries. Such flexibility of treatment called for a certain degree of judgment not only on the part of the reporting countries but also by the Fund, for it was important that deviations from the schedule be made only after consideration of both the country's reporting difficulties and the Fund's operating needs. Accordingly,
it appeared essential for the Fund to establish the most intimate possible contact with the official in each reporting country who would assume over-all responsibility for submitting balance-of-payments data to the Fund. On the basis of this contact a relationship of active co-operation and mutual confidence has developed, the importance of which in subsequent years can hardly be over-estimated. The willingness of many countries to supply in confidential form data which otherwise would have been unobtainable, the progress made in creating highly developed reporting systems in countries which hitherto had little or no experience in the field, and the resolving through joint efforts of countless intricate methodological problems, all have their origin in these early endeavours to abandon a more formal approach in favour of conducting the Fund's work on the basis of personal contact.

II. Collection and Presentation of Balance-of-Payments Reports

6. The international accounts as classified in the Balance of Payments Manual contained relatively few startling innovations in form. The Manual was designed rather to explain in the fullest possible detail, how the summary statement of the balance of payments might be derived from the major types of statistical sources available in the reporting countries. In doing so, and in re-classifying some of the traditional categories so as to reflect the most important post-war changes in the composition of international payments, the Fund hoped to secure the maximum volume of data while imposing the minimum burden on its members.

7. The balance of payments was conceived and recorded as a global summary of the gross totals of fourteen separate international accounts. Each of these accounts was set out in a separate working table, and each table was accompanied by detailed notes explaining the definition, content and method of valuation of its component entries. The totals of these accounts were entered in the master table in one of two principal groups. The first group, Current Transactions, included two distinct types of transactions, namely goods and services on the one hand, and donations on the other, the former being sub-divided into merchandise, non-monetary gold, foreign travel, transportation, insurance, investment income, government transactions not elsewhere included, and miscellaneous services. The
second group, recording the movement of Capital and Monetary Gold, included private capital movements both on long and short-term, and movements of long and short-term capital and of monetary gold for account of official and banking institutions.

8. While the goods and services accounts were largely traditional, they embodied one significant departure from the practice of the majority of countries in that imports were included in the merchandise account at f.o.b. values. This approach was a consequence of the definition of balance of payments adopted in the Manual as a statement of transactions between residents and foreigners in that it permitted the complete exclusion from the balance of payments of those payments of freight and insurance on imports which did not represent such transactions. A further innovation in these accounts lay in the treatment of gold transactions. The procedure adopted constituted the only important exception to the resident-foreigner principle, and was based on procedures introduced by Canada, and anticipated in the report of the League Sub-Committee. Under this procedure, non-monetary gold movements entered in the current account included not only non-monetary transactions with foreigners, such as sales of newly-mined gold or purchases of gold for industrial consumption, but also the public's net sales to, or purchases from, the monetary authorities. Such domestic transactions were included in the goods and services accounts because domestic sales of gold to the monetary authorities increase their international monetary reserves in the same way as sales of merchandise to foreigners; and domestic purchases of gold from the monetary authorities decrease international monetary reserves in the same way as purchases of merchandise from foreigners.

9. The most far-reaching innovation introduced by the Manual lay in the basic division of capital items into those originating on private account, and those sponsored by official and banking institutions. The Fund recognized, in this division, the extent to which the post-war flow of international investment capital had passed from private hands and had been replaced either by government-sponsored movements of capital or, more generally, by inter-governmental lending. It recognized too the growing concentration of gold and foreign exchange holdings in the official reserves held by the various treasuries and central banks of the trading nations. Such fundamental changes necessitated a revision of the traditional balance-of-payments categories so as to make readily apparent the influence of official policy in contributing to or in financing a surplus or deficit in the balance of payments.
10. A little more than a year after the Manual was despatched to the Fund's members with a request for balance-of-payments data, the Fund published its first Balance of Payments Yearbook. This volume, which contained balance-of-payments statements for fifty-one countries covering the years 1938, 1946 and 1947 and consolidated statements for Europe and Latin America, was designed to make public as much of the balance-of-payments data received by the Fund as was available on a non-confidential basis. The first Yearbook used as its principal vehicle for presenting the balance-of-payments record, the standard schedule adopted in the Manual, the object of which was principally to secure a consistent and uniform system of reporting between the various countries represented. A full description of this schedule was supplied and, for each country, detailed descriptions and classifications of its major components were included.

11. In addition to these uniform classifications, the Yearbook also offered, somewhat tentatively, a form of presentation of the balance of payments which permitted some adaptation of the summary statement to fit the characteristics of the individual country. This wholly new form of statement, which has subsequently become well-known as the "compensatory financing form", was designed to show the financing undertaken by the monetary authorities in order to balance a country's international accounts. Implied in the concept of balance was the more fundamental concept of surplus or deficit, and the attempt to find a realistic measure of this concept in each particular case was the most notable feature of the new presentation. No such concept was incorporated in the standard schedule drawn up in the Manual, and no attempt was made in the Yearbook to claim more for the measure adopted than that it enabled the balance-of-payments statement to "tell its story more readily". The financing form was admitted to be experimental, but it was also described as embodying the views of the Fund's staff concerning "the most effective presentations of the balance of payments from the standpoint of international exchange problems".

12. Further important departures in the direction of emphasizing special balance-of-payments characteristics of individual countries included the separate treatment, in appropriate cases, of major industrial sectors that could be clearly
differentiated within the balance of payments. Thus, in the statement for Venezuela, the various categories of international transactions undertaken by the foreign-owned oil companies were shown as a separate sector; similar treatment was accorded to the international transactions of the foreign mining companies in Chile and of the domestic shipping industry in Norway.

III. Subsequent Statistical Developments

13. One of the deficiencies noted in the first Yearbook was the absence from the Manual of a uniform geographical classification of the balance of payments, supplementing and elaborating the standard global classification. The Fund's need for such data for an analysis of the problems of multilateral trade was evident, but it was not considered desirable to request them at the outset. Accordingly only very limited use could be made in the first Yearbook of such regional data as countries were already assembling for their own purposes. Progress in the use and understanding of the global schedule, however, made it possible to include a standard geographical classification in the Fund's second annual request for balance-of-payments data, issued early in 1949. An appendix describing this classification was added to the second edition of the Manual, published in January 1950. Countries were asked to submit data on their transactions with each of twelve groups of countries: the United States, Canada, the United Kingdom, the Rest of the Sterling Area (in Europe, in the Far East and elsewhere), Continental Europe (the OEEC countries and Eastern Europe being indicated separately), the Middle East, the Far East, Latin America, and the Rest of the World. Recognizing the very great difficulties involved in adopting such a standard classification, the Fund has permitted considerable flexibility in the use of these groupings, and is still exploring with some countries which, so far, have been unable to furnish anything but a global statement, the possibility of adopting a simplified geographical classification. The extent of the progress made in this direction is, however, evident from the considerable volume of regional statistics presented in the recently published fourth volume of the Yearbook. Regional data are now available for approximately half of the sixty-five countries covered and for virtually all of the major trading nations of the world.
14. A second preoccupation of the Fund in recent years has been the gathering of preliminary data well in advance of the date when final reports can be computed and released. Many of the Fund's purposes can be adequately served by the use of data which represent informed estimates and even extrapolations, rather than accurately computed accounting records. The loss of accuracy in such data is amply counterbalanced by the gain in currentness. Consequently the Fund has proceeded to request its members to provide preliminary annual data well in advance of their final "official" reports as well as preliminary half-year data. In large part, these preliminary statistics have been published by the Fund. The normal practice has been to publish those that are reasonably accurate and comprehensive in the Fund's monthly bulletin, "International Financial Statistics", as soon as they have become available, together with summaries of definitive data for earlier periods. The Yearbook also contains such preliminary statistics in so far as they have not been superseded by definitive data at the time of its publication. In this manner the balance-of-payments information assembled by the Fund is made generally available with the minimum delay.

15. A third direction in which the Fund has expanded its original system of reporting has been in the addition to the revised Manual of an "abbreviated schedule", designed explicitly for the use of those countries whose statistical facilities are so small, or whose international transactions are so limited, as to render the completion of the standard schedule unnecessarily burdensome. The abbreviated schedule, consisting of a master table and supplementary tables in the same way as the standard version, excludes much of the detail of the latter and is so designed as to permit the maximum degree of flexibility in its completion. A simplified geographical classification is incorporated in the schedule, into which similar flexibility is introduced. Some ten countries are presently using the abbreviated system of accounts in their reports to the Fund.

16. Broad changes and additions such as these, and numerous improvements and refinements in the data reported by individual countries, have been possible only through the maintenance of frequent and intimate contact with the Fund's
many correspondents. Frequent contact, in the sense of following up each formal request by an individual approach and by questioning each ambiguity or omission in the reports submitted immediately it is noted, has been invaluable. Personal contact, in cases where difficulties arose that seemed impossible to reconcile by correspondence, has been maintained by visits to individual countries by members of the Fund's staff and, more often, by seizing every opportunity to discuss such difficulties with technicians of the country visiting Washington. Each balance-of-payments statement is reviewed by the Fund's staff and the review is not terminated until every outstanding question of interpretation, or of reconciliation with other available data, has been settled by discussions with the authorities responsible for preparing the statement.

17. Largely as a result of these continuing and increasingly close relationships the comprehensiveness and accuracy of the reports submitted to the Fund have improved substantially since the Manual was first issued. The first Yearbook included data relating to twenty-one countries which had not previously submitted balance-of-payments reports to the League. Since that time, data relating to eighteen additional countries have become available for publication by the Fund. Statements for the Belgian territories in West Africa, and for Bolivia, Ceylon, Israel, Northern Rhodesia, Paraguay and Thailand were added to the second Yearbook; for Honduras, Libya, Pakistan and the Netherlands West Indies to the third Yearbook; and for Burma, Haiti, Lebanon, Panama, Portugal, the Sudan, and Syria to the fourth Yearbook. As an example of very great progress represented by these additions it may be noted that the Yearbook now contains statements covering every one of the Latin-American Republics, whereas only one of those countries was able to report to the League in pre-war years. Similar progress has been made in obtaining data from the Far East and other under-developed areas of the world.

18. The last four years have witnessed considerable progress in the development of the Fund's own balance-of-payments concepts. In particular the concept of compensatory official financing, widely discussed and sometimes severely criticized, has been refined and developed to the point where, in the most recent Yearbook, the financing form of presentation has supplant ed the standard form as the principal method of presenting balance-of-payments developments. A further explanation of the concept has been provided in the revised edition of the Manual.
IV. The Fund's Training Programme

19. Early in 1950 the Fund became convinced that assistance of a more fundamental character was needed by a number of countries whose experience in balance-of-payments work was brief and whose statistical staff, therefore, lacked the technical expertise which makes for intelligent and comprehensive reporting. Even the detailed explanations afforded by the Manual were found to presuppose a basic knowledge of statistical and accounting methods, and this knowledge could not be conveyed by correspondence or by brief personal contacts of the type relied upon hitherto. Accordingly the Fund undertook to provide, through a series of systematic and carefully planned training courses, the basic methodological equipment required by the technicians of such countries.

20. Four courses of training have now been completed, and in each case five candidates have been selected for training. The only special qualifications required of every candidate have been that he should be a member of the staff of the agency in his country charged with the task of preparing the official balance-of-payments statement, and that he should be employed in the preparation of this statement after his return from the Fund. In the past, each course has included a three months' period of training at the Fund where instruction has been given in elementary accounting principles, in the basic concepts of the balance of payments, and in the broad techniques of compiling balance-of-payments data from customs, exchange control and other administrative or business records. In addition each trainee has been required to prepare, in consultation with the Fund's staff, a report dealing with the technical balance-of-payments problems of his own country and containing specific proposals for improvements in methods of collection and reporting. A further three months have been spent at the U.S. Department of Commerce, where more concrete and technical instruction has been provided in the construction of the United States balance-of-payments statement. The fifth training course, which is now in progress, includes an additional two months of training at the Fund, devoted to the more analytical problems involved in interpreting the balance-of-payments statements, especially those of the trainees' own countries.
21. These training courses, which in the future will include a further four months of instruction in the general purposes and operations of the Fund, have proved immensely valuable both to the reporting countries and to the Fund's staff. The reporting countries have, in each case, demonstrated the utility of the programme by making great improvements and often widespread reorganizations in their reporting methods; the Fund has gained an otherwise unattainable familiarity with the practical difficulties faced by the compilers of its reports and a markedly increased understanding of the meaning of those reports. As this understanding has increased, the scope and character of the training programme has broadened and deepened. In the future it is hoped that the present emphasis on basic technical training provided for a limited group of countries will be replaced by discussions at a more advanced level not only of the statistical problems of balance-of-payments compilation, but also of the technical and analytical problems involved in interpreting current trends and prospects. It is hoped that statistical representatives of all the Fund's members will be able to participate in these discussions.

V. Co-operation with other Agencies

22. The expansion and development of the Fund's balance-of-payments activities have enabled it to place much of its information and experience at the disposal of other international agencies whose responsibilities extend into this field, particularly those associated with or established by the United Nations. The interchange of knowledge and opinion made possible by this co-operation has, in turn, been of considerable benefit in furthering the Fund's own work.

23. The most direct form of this co-operation has been the provision to the International Bank for Reconstruction and Development and the United Nations Secretariat, and through the latter to the various UN Regional Economic Commissions, of all non-confidential balance-of-payments reports received by the Fund as soon as they have been reproduced. Drafts of each section of the Yearbook have also been sent to the same organizations immediately they have been prepared. In each case, these arrangements have made possible a much wider circulation of current data than the normal methods of publication and distribution would permit.
24. The Fund has also co-operated from time to time with other agencies in providing balance-of-payments statistics required for special purposes. Data are provided annually for inclusion in the Statistical Yearbook of the United Nations and for the report of the ECAFE. Drafts of reports by the Regional Economic Commissions have been reviewed in the light of the most recent information available to the Fund. On two occasions, even closer co-operation has been established, with the ECE and the ECLA, respectively, in preparing jointly a consolidated balance-of-payments statement covering the two areas served by these commissions. Moreover, in each of the past three years, the Fund's staff has worked closely with the UN Division of Economic Stability and Development in obtaining the balance-of-payments data required for the annual report to the ECOSEC on full employment policies and prospects. During each of these years the Fund has played an active part in drawing up the balance-of-payments section of the questionnaire circulated for this purpose by the United Nations, and in co-ordinating this questionnaire with its own requests for balance-of-payments information from its members. The extent of this co-ordination has now increased to the point where, in the current year, the Fund itself has undertaken to request from its members for transmission to the United Nations all balance-of-payments information required for the Secretary-General's report to the ECOSEC.

25. In the more technical phases of its work, the Fund has maintained close contact throughout with the UN Statistical Office. Delegations from the Fund's Balance of Payments Division have helped to conduct three international statistical seminars sponsored by the United Nations. At the first of these, held in Rangoon in January 1951, the Fund's staff headed a working group in balance-of-payments statistics. In a similar working group at the second conference, meeting in Panama City in December 1951, the Fund's staff led a detailed discussion of the problems of compiling the balance of payments from exchange control data and other sources. The seminar session led by Fund representatives in Ottawa in October 1952, dealt with balance-of-payments statistics from the standpoint of central statistical organizations.
26. More informal consultations have taken place with the UN Statistical Office concerning the integration of the balance-of-payments accounts with external trade statistics on the one hand and with national income accounts on the other. The Fund's staff have made a number of suggestions bearing on the recent report on External Trade Statistics by the UN Committee of Experts. The United Nations' proposals for standardizing the reporting of national income data have been reviewed in considerable detail as were the previous proposals of OEEC and will, as described in the succeeding section, lead to significant revisions in the Balance of Payments Manual.

VI. Further Developments in Prospect

27. Progress in the use of the Fund's reporting forms and in the understanding of the Fund's concepts has brought considerable improvement in the comparability and significance of data reported. Together with the technical training and advice afforded by the Fund's staff, it has also materially reduced the burden originally imposed on national compilers by the scope and detail of the Manual. The endeavour of the Fund to assist in the development of balance-of-payments statistics has been supplemented by the assistance given by some of the more advanced countries in this field, notably the United States. The Fund has been able to serve, to an increasing degree, as a centre for the interchange of advice on methods of compiling balance-of-payments data as well as of the data themselves. It is hoped to broaden considerably the scope of this activity in the future.

28. Mention has already been made of the need to revise the Manual in the light of recent recommendations concerning the reporting of national income statistics. In its original form, the Manual took into account certain roughly defined national income concepts, for the balance of payments itself represents, from this point of view, only an elaboration of the international sector of the gross national product accounts. At the time the Manual was introduced, however, no uniform system of presenting these accounts had been developed and the Fund's implied treatment of them obviously could not anticipate the later proposals. As a result of the progress made by the United Nations working group in developing such a standardized system of accounts during recent years, the Fund foresees,
as one of the tasks to be undertaken in the immediate future, a revision of its own Manual. This will not affect the basic organization of the Manual, but an effort will be made to achieve full co-ordination between the two sets of social accounts. Practical experience in the use of the Manual has also suggested the need for various technical revisions; among them are the allocation of merchandise transactions in the regional table in the light of the practices now recommended for the purposes of external trade statistics. The timing and content of the Yearbook are also under review.

29. Experience in conducting the training programme has demonstrated the widespread need for a working document affording a more basic treatment of balance-of-payments concepts and techniques than the Manual affords. It is hoped to satisfy this need by the publication, in due course, of a "Balance of Payments Textbook" after each of the Fund's correspondents, and other outside experts, have been given an opportunity to present their comments on it. Much of this Textbook has already been completed in draft form and has been used, to great advantage, in the recent training course.

30. Foremost among the activities in the balance-of-payments field which are expected to engage the Fund in the future, however, is the collection on a highly confidential basis of information relating specifically to balance-of-payments prospects in addition to data recording developments in the recent past. Valuable as the historical records have been in providing a sound basis for informed judgment of these prospects, the Fund has long recognized the importance for its operational decisions of reaching agreement with its members concerning the most likely quantitative estimate of their balance-of-payments problems in the immediate future. At the outset the Fund will seek only to familiarize itself with the methods and materials that Governments and central banks are employing for their own purposes. It will not try to force uniform assumptions or uniform presentation upon them. Since mutual understanding and confidence are peculiarly necessary in work of this character, the project will be developed largely by personal visits rather than by correspondence.
31. In these and other ways, the balance-of-payments work of the Fund is expected to increase in usefulness over the years. Conscious always of the problems faced by its reporting countries, however, the Fund will continue in the future, as in the past, to avoid introducing revolutionary changes in its system of reporting or imposing undue burdens on its correspondents. Rather it hopes that the scope and accuracy of balance-of-payments statistics can be developed by a process of normal organic growth.