

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

ISSUES PAPER (BOPTTEG) # 16A

MERCHANTING

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MERCHANTING

At the first meeting of the BOPTTEG in June 2004, the issue of the treatment of merchanting was discussed based on the issues paper BOPTTEG # 16. No clear view emerged on the treatment of merchanting. Therefore, the group decided to put this issue at the agenda for the next BOPTTEG meeting and IMF volunteered to prepare an issues paper.

This issues paper was prepared to facilitate further discussion.

I. Current international standards for the treatment of the issue

Balance of Payments Manual, 5th Edition (BPM5)¹

Merchanting is defined 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 (para 262).

If the commodities are not resold by the merchant in the same accounting period, an import of goods is recorded in the first period, and a negative import entry is recorded in the later period. In the case that a merchanting transaction straddles different recording periods, changes from one recording period to another in the stocks of goods located abroad and valued at acquisition cost constitute part of goods of the economy of the owner (para 213, 262).

In either situation, any difference between the value of the goods when acquired and relinquished is entered as merchanting under other business services (para 213).

Balance of payments compilation guide (para 138-139) and *Balance of Payments Textbook* (para 189-194, 361-362) provide specific treatments of merchanting in BOP.

Manual on Statistics of International Trade in Services (MSITS)

The MSITS's definition of and recommendation on treatments for merchanting are consistent with those of *BPM5* (3.123).

¹ The *BPM5* seems to reflect treatments of wholesalers/retailers services in the *1993 SNA*. The *BPM4* treated merchanting the same as the *BPM5* (the *BPM4* references are para 219, 228, 237).

Box 6 of the MSITS provides detailed explanations on merchanting. The box also shows that; (1) the recording of merchanting transactions is asymmetrical, i.e., merchanting services are recorded only in the economy in which the merchant is resident², and (2) if the goods are resold for less than the original cost of purchase, then a negative export of merchanting services would be recorded.

II. Concerns/Shortcomings of the current treatment

(1) How to measure merchanting services³

- The *MSITS* explicitly accepts a negative export of merchanting services. It is apparent that the *BPM5* accepts the negative exports of merchanting services⁴.

(2) Holding gains and losses for the relevant goods may distort the measurement of merchanting services⁵.

- Holding gains/losses are valuation changes of merchants' assets (inventories). So, they should not be included in services.

(3) The current guidance on merchanting results in structural asymmetry.

- Merchanting services are recorded only by the exporting countries. This causes asymmetry for merchanting services (*Balance of Payments Textbook*, para 192; *MSITS*, Box6).

(4) The recommendation on merchanting trading that straddles different accounting periods may provide misleading data on goods. The recommendation is also very difficult to implement in practice.

² Merchanting services are included in trade in goods in the economy of the original seller and the ultimate purchaser of goods.

³ Practical difficulties in compiling regional breakdowns for merchanting service can also arise. This, however, does not seem to have influenced the discussion of the concept of merchanting.

⁴ The *1993 SNA* also states that output of wholesalers/retailers is measured by the total value of the trade margins realized on the goods they purchase for resale and that “the margins realized on some goods may be negative if their prices have to be marked down”(6.110).

⁵ *Balance of Payments Textbook* states, “Speculative gains or losses realized from transactions in commodity arbitrage are also recorded under this item” (merchanting, para 361). This is implied from the *BPM5* definition and explicitly presented in the *MSITS*. This, however, does not fit the *1993 SNA* concept of services.

- Conceptually, the recommendations in the *BPM5* are appropriate when purchases and resale of the relevant goods straddle different accounting periods, and so merchanting services are not completed in the accounting period of purchase. As the ownership of the relevant goods changes from foreign providers to the merchants (residents), it is appropriate to record imports of the goods. Then, when the relevant goods are resold to nonresidents, merchanting services are to be recorded in the accounting period of resale because the services are completed in the period. Negative imports of the relevant goods are to be recorded for the accounting period of purchase in order to reverse the entry in the previous period.
- Data on trade in goods could be distorted under current treatments when large amount of merchanting transactions straddle different accounting periods.
- There is a danger of mismeasurements under this *BPM5* procedure, and more generally problems in implementation.

III. Possible Alternative treatments⁶

(1) Recording merchanting as trade in goods

The alternative is to record transactions in goods alone.

To support analysis, a new subcategory ‘goods under merchanting’ could be introduced under the goods. The goods related to merchanting should be recorded separately from other goods under this subcategory.

This alternative has the following merits^{7 8};

- It avoids exceptional treatments in relation to ‘change of ownership’ principle.
- The recording of goods under merchanting becomes symmetrical.
- No negative exports of merchanting services are recorded.

⁶ The alternatives coincide with whether the BOP goods and services account is trying to cover transactions in goods and services (as in the SNA’s Goods and Services Account) or production (as in the SNA’s production account).

⁷ This would be consistent with how we treat the activities of merchants when the goods pass through their territory. In these cases, the wholesale margin is included with the price of the good, and we would not try to separate it, even though the wholesaler and the customer are in different countries.

⁸ Under this option, providing regional breakdowns of goods under merchanting also become easier.

- Distortions in the measurement of services caused by holding gains and losses on the relevant goods are eliminated.
- Practical difficulties or misleading volatilities are also eliminated when merchanting transactions straddle different recording periods

On the other hand, statistical continuity would not be kept between the *BPM5* and the revised manual⁹.

(2) Recording merchanting as trade in services

The *BPM5* approach could be maintained, but for merchanting that straddle different accounting periods, a new subcategory 'goods under merchanting' under the trade in goods category could be introduced.

IV. Question/Points for discussion

(1) Which alternative does the group recommend? Does the group have other views?

Reference

Annotated Outline (Chapter 9)

Merchanting BOPTTEG Issues Paper # 16

Balance of Payments Manual, Fourth Edition (1977)

Balance of Payments Manual, Fifth Edition (1993)

Balance of Payments Compilation Guide (1995)

Balance of Payments Textbook (1996)

Manual on Statistics of International Trade in Services (2002)

1993 System of National Accounts

⁹ If data on trade on goods is compiled from customs record without sufficient supplementary source for transactions that do not cross customs, new distortions would arise.