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PROGRESS REPORT BY THE SECRETARIAT ON THE WORK OF THE TRADE COMMITTEE

See Annexes I - II - III for
documents E/CN.12/C.1/WG.1/1 - 2 and 3.

Central Banks Working Group on a
Multilateral Payments System
First Session.

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/NOTE BY

NOTE BY THE SECRETARIAT

The secretariat submits for the consideration of the Governments members of the Commission the following "Progress report on the technical studies undertaken by the ECLA secretariat in compliance with resolution 1(I) of the Trade Committee", together with 3 annexes (E/CN.12/C.1/WG.1/1, 2 and 3) prepared for the Working Group on a Multilateral Payments Régime which is to meet from 27 April to 11 May 1957, at Montevideo, Uruguay. This preliminary report on the work of the Trade Committee will be revised after the Montevideo session so that any comments formulated in the course of the Working Group's discussions may be incorporated into the text.

It is also hoped that the Working Group will prepare a report on its activities, which will be presented in due course at the seventh session of the Commission.

/PROGRESS REPORT

PROGRESS REPORT ON THE TECHNICAL STUDIES UNDERTAKEN BY THE ECLA SECRETARIAT IN COMPLIANCE WITH RESOLUTION 1(I) OF THE TRADE COMMITTEE

Pursuant to the recommendation contained in resolution 1(I) of the Trade Committee, adopted in November 1956, the Secretariat of the Economic Commission for Latin America has carried out certain technical studies relating to the possibilities of gradually establishing a regional payments régime on multilateral lines. The studies have been prepared with due regard to the suggestions embodied in the resolution, as well as to the relevant data and opinions supplied to the secretariat by the Central Banks of the intra-regional clearing accounts countries[1/] on the basis of a special questionnaire which was submitted to them in due course.

I. SIGNIFICANCE OF RESOLUTION 1 (I) OF THE TRADE COMMITTEE

Before special reference is made to the secretariat studies, in the preparation of which the Central Banks gave invaluable assistance, the aims of the resolution in question and the programme of action which it outlines must be briefly reviewed.

1. Objectives

One of the main objectives of the resolution is to prevent disturbance of the normal conduct and development of inter-Latin-American trade by the freezing of balances which is apt to result from bilateral practices. To this end, since there are still aspects of the balance-of-payments situation of the countries concerned which make it difficult to establish a free régime of payments in convertible currency, the existing system of bilateral settlement of balances would be gradually replaced by a system under which such settlements would be effected on a multilateral basis. Clearly, the

1/ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

/introduction of

introduction of a régime of this kind would provide an incentive to co-ordination of the exchange policy of the various countries, as one of the most important means of creating by degrees conditions favourable to the ultimate establishment of a common regional market, a subject which was also discussed by the Trade Committee (resolution 3 (I)).

2. Transition period

As a programme of action for the progressive transition from the rigid bilateralism at present prevailing to a multilateral system, resolution 1 (I) recommends the following measures:

(a) The periodic exchange of data on the situation of the inter-Latin-American clearing accounts among the Central Banks of the clearing-accounts countries. One of the aims of this part of the resolution is to promote the transfer of bilateral balances to accounts with third parties, automatically when such balances do and voluntarily when they do not exceed the level of the credit agreed upon between the Central Banks;

(b) The revision of the existing accounts, at such time as the countries concerned may deem opportune, in conformity with several principles, among which may be mentioned equal quotations for units of account and convertible dollars in similar operations, commodity trade at world prices and the establishment of swing credits between Central Banks at a level high enough to permit the normal development of the operations concerned; and

(c) The preparation of studies and suggestions conducive to the gradual establishment of the payments union through a Working Group composed of representatives of the Central Banks of the clearing-accounts countries, or of the corresponding monetary authorities where no Central Bank exists.

II. SECRETARIAT STUDIES

The Secretariat has prepared the studies described below for presentation to the Working Group set up under the terms of resolution 1(I) with the collaboration of the Central Banks.

/1. Compensation

1. Compensation of balances in inter-Latin-American trade (E/CN.12/C.1/WG.1/1)

The purpose of this study is to supply further data on existing conditions in their bearing upon the possible establishment of a multilateral payments régime, and thus to extend the research on this point embodied in other Secretariat documents, i.e., Study of Inter-Latin-American Trade (E/CN.12/369/Rev.1) and Payments and Trade in Latin America (E/CN.12/C.1/3).[2] The picture presented by these closely inter-related studies is sketched in broad outline below.

Among the factors of a general nature which favour the possible future establishment of a common payments régime, the two most important are the complementarity of many of the natural products on which inter-Latin-American trade is traditionally based, and the obvious possibilities of strengthening this trade by the incorporation of the semi-manufactured and manufactured goods which Latin America's incipient industry is producing, in the very lines for which regional demand expands as income grows.

Alongside these auspicious circumstances of a general kind, there is one directly connected with the current structure of balances in bilateral accounts, which might be considered likely up to a point to promote the setting-up of a common payments régime, provided that this latter were combined with specific co-operative practices in the trade policy of the member countries. The documents cited considered two aspects of the structure of balances. In E/CN.12/369, which dates from 1955, the possibilities of multilateral compensation of each country's net bilateral balances were analysed.

Although this study covered as long a period as twenty years and its findings were, on the whole, encouraging as regards the establishment of a multilateral system, it left some room for doubt, as only trade balance

2/ Reproduced in Inter-Latin American trade: current problems (E/CN.12/423), II, Part One.

/statistics were

statistics were available. More satisfactory background data were afterwards obtained, in the shape of statistics on real receipts and expenditure through the clearing accounts over the period 1954-56. From the analysis made on this basis, with respect to the triennium mentioned, the picture obtained was very similar to that presented in document E/CN.12/C.1/3. In fact, if the net positions registered during this three-year period are compared with the amount of the swing credits stipulated in the payments agreements concerned, it will be seen that, broadly speaking, net balances in inter-Latin-American trade on account were lower than the corresponding bilateral credits. Consequently, if a multilateral clearing-house had existed, each country's margin of credit within the common mechanism would have absorbed virtually the whole of its disequilibria. Most of the debtor countries would have covered their liabilities without resorting to means of payment unrelated to the commodity trade liquidated within the reciprocal accounts. Of the eight countries involved in the inter-Latin-American clearing-accounts régime, two only constitute exceptions to this general rule; but the amount of their final debit balances is small in relation to the aggregate capacity for compensation.

To turn to the factors indicated by the studies carried out as unfavourable to a multilateral system, emphasis must be laid on one of paramount importance, namely, the lack of co-ordination among the exchange policies of the clearing-accounts countries. However, certain bases for improved co-ordination are laid down in resolution 1(I) of the Trade Committee.

Yet another important point is stressed in the secretariat studies, especially E/CN.12/369/Rev.1. This is the need for collaboration among the various countries in the sphere of payments problems. As the document referred to points out, if success is to attend any programme for the establishment of a multilateral system, those taking part must necessarily be prepared to adopt certain measures without the application of which little can be expected of the régime. First and foremost, they would have to do everything possible to facilitate the liberalization of their reciprocal

/trade, which

trade, which would involve the gradual elimination of the restrictive procedures at present hampering freedom of trade. The participating countries would also have to be prepared to accept a higher degree of competition in inter-Latin-American trade, within a framework of reciprocal opportunities, although consideration might perhaps be given to the maintenance of certain special temporary measures for the benefit of the economically weaker members of the group. The study cited also calls attention to the fact that the satisfactory operation of a multilateral payments system is bound up with the establishment of a reasonable degree of internal economic stability in the member countries. The prevention or control of inflationary processes is an important factor in the maintenance of competitive export prices. In this connexion the countries taking part would have to be willing to adopt common measures aimed at safeguarding the balance of trade, and possibly to extend their mutual collaboration to a method of consultation on the determination or modification of exchange rates, to which recourse could be had whenever the balance of inter-Latin-American trade was affected by this problem.

2. Registration of operations transacted through inter-Latin-American clearing accounts and exchange of comparable data (E/CN.12/C.1/WG.1/2)

The aim of this document is to provide the Working Group on a Multilateral Payments Régime with the background material for discussion of how the exchange of data envisaged in resolution 1(I) of the Trade Committee might be initiated.

As a first step towards the co-ordination of the separate bilateral mechanisms and their possible replacement by a multilateral system, this exchange of data would imply:

(a) The periodic compilation, on comparable bases, of statistics as to the development and balances of the inter-Latin-American clearing accounts, and

(b) The regular distribution of such statistics, duly classified, among the Central Banks or the appropriate monetary authorities in the clearing-accounts countries.

/On the

On the basis of data and advice supplied by the Central Banks or equivalent organizations, the document first indicates possible lines along which uniform standards could be established for the registration of operations and the determination of balances. It also contains an outline of the method which would seem to be the most suitable for the compilation and distribution of comparable data, confined in the initial stage to the totals and balances resulting from the registration of already-liquidated operations in the accounts. The data would also be extended to cover the real, statistical and potential balance in every inter-Latin-American clearing account.

3. Bases for the draft standard agreement on a payments régime (E/CN.12/C.1/WG.1/3)

The object of this document is to submit for the consideration of the Working Group some background data on the possible preparation of a draft standard agreement for payments through a clearing mechanism, and it relates particularly to that part of resolution 1 (I) in which the clearing-accounts countries recorded their intention of adopting and applying concurrently, at the time they considered appropriate, the following basic principles:

(a) Equal quotations for units of account and convertible currencies on the exchange markets concerned, for the same operations;

(b) Trade at prices not higher than those prevailing on the world market. If no bases for comparison are available, quotations shall not exceed prices paid by any third country under the same conditions;

(c) Payment through the agreement-accounts of the following items, inter alia: the value of the commodities traded, freight charges relating to direct traffic, insurance and reinsurance, other expenditures accessory to trade and other items agreed upon by the contracting parties;

(d) Reciprocal credits adequate for the satisfactory development of trade, due allowance being made for seasonal fluctuations;

(e) Automatic transfers to the accounts of other countries participating in the system of transfer of balances, through communication with the

/Central Bank

Central Bank of the debtor country, of sums in excess of the stipulated swing credits; and

(f) Voluntary transfers from one to another of the above-mentioned countries' accounts, by prior agreement between the Central Banks concerned, of favourable balances within the swing credits.

Document E/CN.12/C.1/WG.1/3, like the others cited, reflects the opinions expressed in this connexion by Central Banks and by monetary authorities of the same standing. Broadly speaking, it was felt that the preparation of a standard agreement for a compensatory payments régime within the region would fulfil a two-fold purpose. On the one hand, it would allow some idea to be formed of how far the general principles advocated in resolution 1(I) are applicable in the initial stage of inter-Latin-American collaboration at the level in question, in view of the diferrent characteristics of trade transactions in each bilateral channel. Secondly, the agreement would provide some sort of guidance for the gradual establishment of more or less uniform regulations when the pacts in force were renewed or new ones were concluded. In addition, it would facilitate the task of concerting a common instrument for the ultimate establishment of the multilateral régime.

Alongside these considerations, another of basic importance must be emphasized. The heterogenous nature of the various inter-Latin-American agreements in force exerts a depressive influence on trade, since it helps to freeze bilateral balances by making them, in practice, non-transferable, and thereby aggravates the effect of other problems such as the non-observance of parities, the fall in relative quotations for units of account, and the consequent discouragement and overpricing of exports. Hence the importance for the growth of Latin American trade of the co-ordination or standardization of the main clauses in such agreements.

The preliminary bases laid down with this object in view in document E/CN.12/C.1/WG.1/3 cover the following points: purpose of the accounts, operations included, units of account, liquidation of payments and documentary credits, parities, official credits and balances, multilateral

/transfers, other

transfers, other regulations as to balances, prior deposits, official base values, temporary exports and imports and provisos of a general nature.

4. Study of the multilateral system

Apart from the documents listed above, the Secretariat is also engaged on the preparation of the technical study on the multilateral system contemplated in resolution 1(I). This study, which is not yet completed, will attempt to examine the positive and negative aspects of the devices by means of which such a régime might be established, and the gradual stages by which it might suitably be introduced.

In accordance with a fundamental guiding principle laid down by the Governments represented on the Trade Committee, the study takes into account the need for the establishment of the multilateral system to be envisaged as a phase in the progressive advance towards the total liberalization of trade, whether intra-regional or with the rest of the world. Payments regulations should therefore be associated with others designed to ensure the gradual disappearance of the restrictions hampering trade; and all these should be adopted concurrently with yet others intended to encourage collaboration among the countries taking part in the system, so that bilateral disequilibria might be eliminated or reduced through the expansion of commodity trade.

On these general bases, the following are the main topics on which, by means of technical analysis, the study in course of implementation will seek to shed some light:

(a) The nature of the system for multilateral settlement of balances deriving from bilateral trade movements will be discussed together with the question as to whether such settlements should or should not be effected automatically and at regular intervals.

(b) An attempt will be made to determine whether it would be better to maintain current practices with respect to bilateral credits or to replace them by a centralizing régime. In the latter case, such credits would lose their present character and would be extended by each country to the group made up of the members of the resultant union or community, as a quota or

/contribution to

contribution to the aggregate amount of credits. This would mean that each individual quota would have to be fixed when the country concerned acceded to the system, either at the time of its constitution or in the future.[3/] Among the factors considered in this part of the study are the following: the amount of the total movements - receipts and expenditure - registered in each country's inter-Latin-American accounts; the importance of the seasonal disequilibria usually arising in the bilateral mechanisms in the course of each fiscal year; and the magnitude and nature of the annual bilateral disequilibria recorded in the past, both in general and in relation to the commodities representing the bulk of the trade under consideration.

The acceptance of this system as satisfactory would mean that the payments union would take over the bilateral credits and debits of the participating countries. Each member would become a creditor or debtor of the new organization, to the amount of the net surplus or deficit registered with respect to the other members at the expiry of the predetermined compensation period (for example, one month).

(c) As a corollary of the preceding point, the position of the bilateral accounts under the multilateral régime and the desirability of their maintenance would be examined. Should they continue in force, their books, besides registering, as at present, the movements corresponding to direct trade transactions between the contracting parties, would include multilateral transfers under the new organization. On one assumption, apart from the monthly credits accorded to each other by the countries concerned to permit the operation of the multilateral system, bilateral credits would no longer be granted within the accounts, since they would be replaced by each member's quota within the centralized multilateral credit.

(d) The study will also consider whether the multilateral payments system would or would not require circulating capital in convertible

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3/ On the creation of the European Payments Union, basic quotas were fixed at the equivalent of 15 per cent of the value registered for the aggregate trade of the country concerned with the other members of the organization. The amount of these initial basic quotas was afterwards modified in particular cases.

currencies, and the amount of such capital that would be needed.

In any event, it is foreseeable from the outset that if such capital existed it would hardly cover payments deriving from structural disequilibria. These might better be remedied, as has already been suggested, by co-operation among the various countries in matters of trade policy, with a view to alleviating debit balances through the expansion of trade in goods and services. The main purpose of the capital would be to prevent the delays which might be occasioned in the effecting of transfers, when these exceeded the individual country's quota, by the probable lack of synchronization between claims and payments under the system.

(e) Another topic dealt with in the report will be that of the regulations for settling net balances over and above each country's quota in convertible foreign exchange. To this end, the current situation, on which adequate data is available in document E/CN.12/C.1/3, will first be taken into account. As is pointed out in that study, under the bilateral accounts system a tendency to impart the greatest possible flexibility to the swing credits mechanism is evident both in the fixing of maximum levels and in the habit of abstention from demanding payment of balances in convertible currencies. Just as in some channels trade is carried on with a practically unlimited margin of credit, so there are few countries which make use of their contractual right to request that their credit balance be covered in dollars once the crucial point has been reached. Several countries have taken up this attitude in relation to large assets that have accumulated in bilateral accounts until the stipulated credit has been exceeded. The well-known depressive effects which the exercise of the right in question would produce on trade are among the considerations on which such conduct is based. Another, allied to this, springs from the fact that certain disequilibria which are very marked if assessed within the short term of one year tend to right themselves spontaneously over the medium term. In this way the policy governing the granting of official credits and the collection of surpluses in convertible currency reveals adaptability to the real conditions of trade. The situation described is

/also partly

also partly brought about by another important factor, namely, the chronic shortage of convertible currencies affecting almost all the South American countries. Because of this, it is felt to be preferable that resources required for the development of foreign trade with other regions should not be deflected to inter-Latin-American payments. Thus the South American republics included in the transferable sterling zone very seldom resort to that currency to settle their reciprocal balances; neither is the convertible dollar used for this purpose. Fundamentally, the reasons are the same as those which induce many of the South American countries to conduct their reciprocal trade on the basis of units of account.

But it is an established fact that the frequent freezing of balances entailed by this state of affairs sets up a formidable barrier to the continuity and expansion of trade. Consequently, the multilateral system aimed at should not only generate the steady absorption of balances, but ought also, in the early years, while progress is being made towards a higher degree of multilateralism, to prevent the resultant benefit from turning into a disadvantage by causing a convertible-currency drain on the balance of payments. The study will therefore discuss in addition whether, in order to liquidate surpluses within the multilateral mechanism's working capital, measures such as the following should or should not be contemplated:

i) The assignment of a predetermined period during which the creditor or debtor country, as the case might be, could modify its position in relation to the system simply by further transfers or additional commodity trade;4/ and

ii) Provision for the surplus still registered after expiry of the period of deferment to be covered or collected, according to whether the country concerned is a debtor or a creditor, in convertible foreign exchange and on one or several occasions.

4/ The period of deferment might prove unnecessary if the credit quota for each country in the union were fixed at fairly high levels, so as to avert the likelihood of payment in convertible foreign exchange.

/Consideration will

Consideration will also be given to the desirability in certain cases - because of the balance-of-payments situation of the creditor or debtor country, or for other reasons - of liquidation of the surplus by a single payment or in specific instalments.

To return to the possible period of deferment, it should be noted that particular attention will be devoted to this subject, as under given circumstances such a régime might complicate the operation of the system. In any event, if a period of deferment is granted in favour of the debtor, this would seem to imply that the organization's payments to the creditor could also be similarly deferred. Otherwise it would be difficult to safeguard the purposes for which the multilateral organization's working capital is designed.

(f) From another angle, in order to carry out a study parallel to that on the multilateral régime, the secretariat is collecting the data required for an analysis of the trade measures that might help to stabilize balances within a framework of expanding trade, especially in connexion with obstacles that could be removed by means of suitable agreements.

(g) The study will also deal with the questions of procedure that would be inherent in the mechanism of the multilateral system if the latter's institution were decided upon. Apart from examining the way in which the functions of an agent for purposes of computing and actually effecting transfers could be fulfilled, it will discuss the advisability of such regulations as the following:

i) On the last day of each month, the Central Banks responsible for keeping the master accounts would cable the balance of their inter-Latin-American bilateral accounts to the agent acting for the organization;

ii) The agent would assess the position between each pair of countries on the basis of the data received. If in a given case counterpart accounts were kept, the balance resulting from a comparison of the two accounts would be recorded on the books;

iii) After calculating the transfers that would be feasible on the basis of the variation in each country's net bilateral balances during the month, the agent would communicate to the Central Banks the transfers to be

/made from

made from one bilateral account to another. (To this end, the text of the standard agreement ought perhaps to put on record the willingness of the Central Banks for each and all of them, on the basis of the agent's information, to register in their bilateral accounts movements deriving from multilateral transfers.) 5/

This would be the method of liquidating all the bilateral credit and debit balances of those taking part in the system, who would then become creditors or debtors of the organization itself. 6/

(h) To complete this progress report on the technical study in course of preparation, it should be added that another point to be investigated is the advantage or disadvantage of including under the multilateral system the whole of the reciprocal trade of the countries with inter-Latin-American clearing accounts. Between some of these countries trade relations are based not on the clearing system, but on the use of convertible currency, although for amounts representing a low percentage of the value of trade on clearing accounts.

(i) For the pursuance of the technical study the secretariat will be particularly pleased to receive the suggestions of the Working Group, which

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5/ The following example will serve as an illustration. If in a specific bilateral account a credit balance of 100 were registered in favour of country A against country B, the union would transfer this sum to the assets of the former, issuing instructions to the Central Banks concerned to do the same. The bilateral surplus or deficit would thus disappear.

6/ To return, for the sake of a clearer explanation, to the example previously cited, if in a given month the total bilateral credit balances of country A attained the value of 500 and its bilateral debts that of 200, this country would be the union's creditor for an amount of only 300. As previously stated, its bilateral credit and debit balances would have been automatically wiped out. In the successive operations of this type carried out by the union from month to month it might happen that a member's positive or negative balance increased or was reversed. In this connexion it should be recalled that if a debtor acquired a credit balance within the union, the member's debit balance would be automatically reduced by a corresponding amount, or vice versa.

/will open

will open its session at Montevideo on 29 April. These suggestions, together with the present report, will be transmitted to the Seventh Session of the Economic Commission of Latin America (La Paz, 15-29 May 1957).

III. CO-OPERATION OF INTERNATIONAL SPECIALIZED AGENCIES

Resolution 1(I) of the Trade Committee stipulates that the Working Group on a multilateral payments régime shall have at its disposal the ECLA Secretariat's technical studies, the progress of which has been described above, and, further, that "through the secretariat (it) shall request the technical assistance of the International Monetary Fund. It shall likewise be empowered", the resolution adds, "to ask for the assistance of the Organization for European Economic Co-operation, in view of its experience in the operation of the European Payments Union, and the collaboration of other international organizations, of the monetary authorities, of other States Members of ECLA and of experts employed at its request by the ECLA Secretariat".

In view of the stage reached in the secretariat's studies on the multilateral payments system, the time is felt to be at hand when the co-operation of the international specialized agencies, especially the International Monetary Fund, would be extremely useful. At the first meeting of the Working Group, therefore, the secretariat will request it to consider the desirability of soliciting the assistance of the Fund for the purposes described.

/Annex I

Annex I

COMPENSATION OF BALANCES IN INTER-LATIN-AMERICAN TRADE

E/CN.12/C.1/WG.1/1

5 April 1957

COMPENSATION OF BALANCES IN INTER-LATIN-AMERICAN TRADE

1. Margin of transferability according to real receipts and expenditure registered in clearing accounts in 1955 and 1956

An analysis has already been made in an earlier document 1/ of the ways in which an intra-regional organization for multilateral transfers could have operated during the last twenty years. The values taken into account for this purpose were those of commodity trade both among the ten South American countries and among the eight that conduct their trade through clearing accounts, i.e., Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay. As real payments through these accounts could not be ascertained, the analysis was based on the figures for visible foreign trade deriving from the f.o.b. values registered in the official exports statistics. Despite this limitation, the conclusions reached in the document are encouraging as regards the possibilities of establishing an intra-regional payments régime which would impart some degree of transferability to the units of account and thus reduce the obstacles to the expansion of trade created by the freezing of balances. In fact, according to the data available, a transfer organization would have been able to compensate balances, without resorting to funds from other sources, up to a relatively high annual level, which in 1955 would have covered about 93 per cent of each country's net balances. The 7 per cent (or 62 million dollars) not susceptible of compensation was equivalent in that year to approximately one-third of the total bilateral swing credits (amounting to about 170 million dollars) granted within the intra-regional clearing accounts.

In the early months of 1957 it was possible, with the direct collaboration of the Central Banks, to compile the data on real payments settled through the accounts concerned in the course of the past two years. Thus more satisfactory background data were collected on which to base an appraisal of the degree of transferability which would have been attained by the relevant balances in 1955 and 1956 had a multilateral compensatory

1/ Payments and trade in Latin America (E/CN.12/C.1/3), pp. 35-41.

/mechanism existed.

mechanism existed. Although this is too short a period for final conclusions proper to be reached, it is worth noting that in the two years mentioned the capacity for compensation as deduced from the receipts and expenditure actually registered in each account was, broadly speaking, very similar to that resulting from the previous examination of the trade balances.2/

Table 1

LATIN AMERICA: POSSIBILITIES FOR COMPENSATION OF BALANCES REGISTERED IN INTER-LATIN-AMERICAN CLEARING ACCOUNTS a/

(Percentages, on the basis of real receipts and expenditure)

	1955	1956
Bilaterally compensated	84.7	83.7
Multilaterally compensatable	6.6	4.5
Non-compensatable net balances	8.7	11.8
Total payments	100.0	100.0
Total payments (Millions of dollars)	968.0	730.0

Source: Statistics supplied by the Central Banks and other monetary authorities.

a/ On the basis of the real receipts and expenditure of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

In fact, a multilateral transfer mechanism would have compensated 91.3 per cent of the payments registered in the accounts in 1955. The remaining sum of 84 million dollars would have had to be financed by recourse to the swing credits stipulated in the agreement or by the utilization of foreign exchange from other payments areas. In 1956 the position with respect to the compensatable margin was much the same as in 1955, although it reflected the preceding year's recesion in intra-regional trade, brought about by such well-known causes as the difficulties in the

2/ Ibidem.

/bilateral accounts

bilateral accounts system created by the exchange reforms introduced in several of the South-American countries, and the importing of United States agricultural surpluses.3/ The amounts collected or paid out through the accounts, which in 1955 had totalled 968 million dollars, dropped to 730 million in 1956. The margin of transferability, in turn, fell to 88.2 per cent of total payments. Thus, the sum that could not be compensated amounted to 87 million dollars in 1956; it should be pointed out that the swing credits had risen to 158 million dollars by the end of that year (see table 1).

2. Sums compensatable according to net bilateral balances in the triennium 1954-56

Another useful means of investigating the prospects for the possible operation of a multilateral transfer mechanism is by examining the net balances registered in the clearing accounts, data on which are now available for the triennium 1954-56. If the relevant figures are considered in the aggregate, it can be seen that during this period the net bilateral disequilibria in the inter-Latin-American accounts of the group of eight countries previously mentioned totalled 399 million dollars. The existence of a multilateral clearing-house would have enabled 38 per cent of such disequilibria, or a sum of 153 million dollars, to be covered (see table 2).

Table 2

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS: FINANCING OF TOTAL BILATERAL BALANCES

(Millions of dollars)

	1954	1955	1956	Total 1954-1956
1. Total bilateral credit and debit balances	132	148	119	399
2. Multilateral compensations	56	64	33	153
3. Compensations through time	-	100	14	114
Non-compensatable balances (1-2+3)	76	-16	72	132

Source: Statistics supplied by the Central Banks or other monetary authorities of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

3/ See Inter-Latin-American commodity trade in 1954 and 1955 (E/CN.12/C.1/5).

/Another point

Another point deserves mention. Not only could part of the net balances have been automatically settled through multilateral transfers, but a certain proportion of these same balances would have been absorbed through the phenomenon which in the terminology of the European Payments Union is defined as "compensation through time", that is, a reversal of the position of certain countries which, after being debtors in one year, become creditors in the next, or vice versa. By virtue of reversals of this kind, so frequent in inter-Latin-American clearing mechanisms, an additional 114 million dollars would have been compensated. In short, if the existing accounts had been handled under a multilateral régime, by the end of the three-year period 1954-56 the net balance would have dropped from 399 to 132 million dollars, thus reducing by about two-thirds the sum which would have been financed by recourse to credit or disbursements of other foreign exchange.

There are also grounds for the belief that the introduction of a multilateral payments mechanism will induce the member countries to co-operate more closely in matters of trade policy, with a view to watching the progress of disequilibria and promoting additional commodity trade in order to check their growth. The proportion of non-compensatable balances shown in table 2 would probably not have been so high if the transfer mechanism had really existed.

On the basis of the statistics for the net balances registered in the clearing accounts during 1954-56, table 3 shows how far each country contributed to the formation of these balances. It also indicates what would have been the position of the countries under consideration if the non-compensatable balance under the multilateral régime had stood at the figure of 132 million dollars given above.

/Table 3

Table 3

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS:
NET CREDIT OR DEBIT BALANCES OF INDIVIDUAL COUNTRIES

(Millions of dollars)

	1954	1955	1956	Cumulative balance 1954-56
Argentina	+ 7.5	+ 8.5	+ 23.1	+ 39.1
Bolivia	+ 1.1	- 2.5	- 8.3	- 9.7
Brazil	+ 15.2	- 23.3	- 30.4	- 38.5
Colombia	- 6.5	- 6.2	- 4.6	- 17.3
Chile	- 27.3	+ 25.5	+ 7.6	+ 5.8
Ecuador	+ 7.6	+ 6.4	+ 4.3	+ 18.3
Paraguay	- 4.3	+ 1.7	+ 2.3	+ 0.3
Uruguay	+ 6.7	- 10.1	+ 6.0	+ 2.6
Total	+ 38.1	+ 42.1	+ 43.3	+ 65.8

Source: Statistics supplied by Central Banks and other monetary authorities.

The creditor countries in the group were Argentina, Chile, Ecuador and Uruguay, the aggregate balance in whose favour amounted to approximately 66 million dollars over the whole period. Bolivia, Brazil, Colombia and Uruguay were the debtors. This does not mean that all debtor countries must necessarily cover their net deficit with foreign exchange other than the units of account, as can be seen from table 4, which shows the amount of the bilateral credits existent within the accounts, and table 5, which compares the disequilibria which arose during the three-year period with the credits in question.

/Table 4

Table 4

AMOUNT OF SWING CREDITS GRANTED IN INTER-LATIN-AMERICAN CLEARING ACCOUNTS

(Millions of dollars)

	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay	Total
Argentina	X	3.0	40.0 a/	b/	15.0	2.0	3.0	5.0	68.0
Bolivia	3.0	X	-	b/	0.5	b/	b/	b/	3.5
Brazil	40.0 a/	-	X	b/	3.225	b/	b/	3.0	46.225
Colombia	b/	b/	b/	X	b/	c/	b/	b/	-
Chile	15.0	0.5	3.225	b/	X	0.25	b/	b/	18.975
Ecuador	2.0	b/	b/	c/	0.25	X	b/	b/	2.25
Paraguay	3.0	b/	b/	b/	b/	b/	X	4.0	7.0
Uruguay	5.0	b/	3.0	b/	b/	b/	4.0	X	12.0
Total	68.0	3.5	46.225	-	18.975	2.25	7.0	12.0	157.95

Source: Official text of the trade and payments agreements concerned.

a/ This credit is unlimited. The sum noted represents the peak figure reached in October 1954.

b/ There is no clearing account in operation.

c/ No credit fixed; settlements are made every six months in convertible dollars.

Table 5

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS: COMPARISON OF DESEQUILIBRIA AND SWING CREDITS IN 1954-56

(Millions of dollars)

	Cumulative balance 1954-56	Amount of each country's swing credits	Disequilibria not covered by the credits
Argentina	+ 39.1	68.0	-
Bolivia	- 9.7	3.5	- 6.2
Brazil	- 38.5	46.225	-
Colombia	- 17.3	-	- 17.3
Chile	+ 5.8	18.975	-
Ecuador	+ 18.3	2.25	+ 16.05
Paraguay	- 0.3	7.0	-
Uruguay	+ 2.6	12.0	-
Total	+ 65.8	157.95	

Source: Central Banks and other monetary authorities.

/Table 5

Table 5 shows that in the last three years as a whole most of the bilateral trade of which the values were liquidated within the accounts registered net balances below the level of the credits stipulated in the agreements. Hence, if the term fixed for settling debit balances had been one of three years, very few countries - in fact, only two - would have been obliged to cover their net deficits with foreign exchange from other sources; and in practice this actually happened. One of these two countries, Bolivia, reached an agreement with Argentina, its most important creditor, under the terms of which the debt concerned, amounting to 8 million dollars on 31 December 1956, was consolidated, and arrangements were made for it to be paid off in petroleum. As regards the other debtor country, Colombia, the situation is accounted for by the special characteristics of its agreement with Ecuador. As swing credits are not stipulated, the net balances are automatically settled at the close of each half-year.

To turn now to the over-all picture presented by the statistics for the three-year period, it is clear that during this time a multilateral agency responsible for the transfer of balances among the existing inter-Latin-American clearing accounts would have been able to operate in relatively satisfactory conditions on the basis of a three-year term for settlement of the net balances. It is needless to add that the annual development of bilateral transactions in each of the last three years would have to be examined more thoroughly. From a detailed analysis of this kind it could be discovered whether the seasonal disequilibria, so frequent in Latin America, would or would not have involved prolonged delays in the effecting of transfers to or from the countries they affected, and whether the freezing of balances that often hampers the normal course of the region's trade would have been avoided to a sufficient extent.4/ This analysis can be made most opportunely when the time comes to study the bases for a credit pool common to all the clearing accounts, if the constitution of such a pool should be deemed a satisfactory means of providing the future transfer instrument with its working capital; this capital could, of course, always be supplemented with the additional resources required for the proper functioning of the new organization, and perhaps for covering some proportion of the disequilibria with convertible currencies.

4/ Tables 6 to 12 contain the background data for the analysis in question.

/Table 6

Table 6

INTER-LATIN-AMERICAN CLEARING ACCOUNTS: REAL BALANCES

(Thousands of dollars)

		Argentina	Bolivia	Brazil	Chile	Ecuador	Paraguay	Uruguay
Argentina	To 31/12/55	x	-2,097	+10,091	+ 4,310	+1,179	817	+1,564
	To 31/12/56	x	-8,006	-12,128	+11,499	+1,154	+2,916	-2,664
	To 31/ 1/57	x	-320 a/	-15,821	+10,935	+1,154	+3,192	-2,731
Bolivia	To 31/12/55	+2,097	x	-519	-	b/	b/	b/
	To 31/12/56	+8,006	x	+1,749	+262	b/	b/	b/
	To 31/ 1/57	+320 a/	x	...	+269	b/	b/	b/
Brazil	To 31/12/55	-10,091	+519	x	+3,077	b/	b/	+285
	To 31/12/56	+12,128	-1,749	x	-3,003	b/	b/	+10,121
	To 31/ 1/57	+15,821	...	x	+3,151	b/	b/	...
Chile	To 31/12/55	-4,310	-	-3,077	x	-199	b/	b/
	To 31/12/56	-11,499	-262	-3,003	x	-328	b/	b/
	To 31/ 1/57	-10,935	-269	-3,151	x	-231	b/	b/
Ecuador	To 31/12/55	-1,179	b/	b/	+119	x	b/	b/
	To 31/12/56	-1,154	b/	b/	+328	x	b/	b/
	To 31/ 1/57	-1,154	b/	b/	+231	x	b/	b/
Paraguay	To 31/12/55	-817	b/	b/	b/	b/	x	+608
	To 31/12/56	-2,916	b/	b/	b/	b/	x	+394
	To 31/ 1/57	-3,192	b/	b/	b/	b/	x	...
Uruguay	To 31/12/55	-1,564	b/	-285	b/	b/	-608	x
	To 31/12/56	+2,664	b/	-10,121	b/	b/	-394	x
	To 31/ 1/57	+2,731	b/	...	b/	b/	...	x

Source: Central Banks and monetary authorities.

a/ The balance existing on 31 December 1956 was transferred to the "consolidated debt" account, which on 31 January 1957 showed a balance of 8,247,553 dollars. This account is to be liquidated, within a period of five years as from January 1958, with deliveries of Bolivian petroleum.

b/ There are no clearing accounts in operation.

Note: The signs (+) and (-) correspond to the countries at the top of the columns.

/Table 7

Table 7

INTER-LATIN AMERICAN TRADE THROUGH CLEARING ACCOUNTS: RECEIPTS AND EXPENDITURE REGISTERED IN THE ACCOUNTS IN 1955

(Millions of dollars)

Importer countries / Exporter countries	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay	Total
Argentina	x	4.4	137.8	a/	34.0	0.1	18.1	2.1	196.5
Bolivia	1.6	x	1.2	a/	-	a/	a/	a/	2.8
Brazil	110.0	0.9	x	a/	9.2	a/	a/	35.3	155.4
Colombia	a/	a/	a/	x	a/	1.0	a/	a/	1.0
Chile	55.2	-	13.4	a/	x	1.3	a/	a/	69.9
Ecuador	0.4	a/	a/	7.2	1.2	x	a/	a/	8.8
Paraguay	19.3	a/	a/	a/	a/	a/	x	1.4	28.7
Uruguay	1.5	a/	26.3	a/	a/	a/	0.9	x	28.7
Total	188.0	5.3	178.7	7.2	44.4	2.4	19.0	38.8	483.8

Source: Central Banks and monetary authorities.

a/ There is no clearing account in operation.

/Table 8

Table 8

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS: RECEIPTS AND EXPENDITURE REGISTERED IN THE ACCOUNTS IN 1956

(Millions of dollars)

Importer countries / Exporter countries	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay	Total
Argentina	x	9.8	91.5	a/	25.0	0.05	10.6	4.6	141.6
Bolivia	3.9	x	1.7	a/	0.3	a/	a/	a/	5.9
Brazil	69.3	3.8	x	a/	13.1	a/	a/	25.2	111.4
Colombia	a/	a/	a/	x	a/	0.4	a/	a/	0.4
Chile	32.2	0.6	13.0	a/	x	1.2	a/	a/	47.0
Ecuador	0.02	a/	a/	5.0	1.0	x	a/	a/	6.0
Paraguay	12.7	a/	a/	a/	a/	a/	x	2.1	14.8
Uruguay	0.4	a/	35.6	a/	a/	a/	1.9	x	37.9
Total	118.5	14.2	141.8	5.0	39.4	1.7	12.5	31.9	365.0

Source: Central Banks and monetary authorities.

a/ There is no clearing account in operation.

/Table 9

Table 9

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS:
BILATERAL SURPLUSES AND DEFICITS IN 1954

(Millions of dollars)

	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay
Argentina	x	+0.7	+19.8	a/	-25.3	+0.9	-3.3	-0.3
Bolivia	-0.7	x	- 0.4 b/	a/	-	a/	a/	a/
Brazil	-19.8	+0.4 b/	x	a/	-1.8	a/	a/	+6.0 b/
Colombia	a/	a/	a/	x	a/	+6.5	a/	a/
Chile	+25.3	a/	+1.8	a/	x	+0.2	a/	a/
Ecuador	-0.9	a/	a/	-6.5	-0.2	x	a/	a/
Paraguay	+3.3	a/	a/	a/	a/	a/	x	+1.0 b/
Uruguay	+0.3	a/	-6.0 b/	a/	a/	a/	-1.0 b/	x
Positive balances +	28.9	1.1	21.6	-	27.3	7.6	-	7.0
Negative balances -	21.4	-	6.4	6.5	-	-	4.3	0.3
Net balances	+7.5	+1.1	+15.2	-6.5	-27.3	+7.6	-4.3	+6.7

Source: Central Banks and monetary authorities.

Note: The signs (+) and (-) correspond to the countries at the top of the columns.

a/ There is no clearing account in operation.

b/ Estimate.

/Table 10

Table 10

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS:
BILATERAL SURPLUSES AND DEFICITS IN 1955

(Millions of dollars)

	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay
Argentina	x	-2.8	-27.8	a/	+21.2	+0.3	+1.2	-0.6
Bolivia	+2.8	x	-0.3	a/	-	a/	a/	a/
Brazil	+27.8	+0.3	x	a/	+4.2	a/	a/	-9.0
Colombia	a/	a/	a/	x	a/	+6.2	a/	a/
Chile	-21.2	a/	-4.2	a/	x	-0.06	a/	a/
Ecuador	-0.3	a/	a/	-6.2	+0.06	x	a/	a/
Paraguay	-1.2	a/	a/	a/	a/	a/	x	-0.5
Uruguay	+0.6	a/	+9.0	a/	a/	a/	0.5	x
Positive balances +	31.2	0.3	9.0	-	25.5	6.5	1.7	-
Negative balances -	22.7	2.8	32.3	6.2	-	0.06	-	10.1
Net balances	+8.5	-2.5	-23.3	-6.2	+25.5	+6.4	+1.7	-10.1

Source: Central Banks and monetary authorities.

Note: The signs (+) and (-) correspond to the countries at the top of the columns.

a/ There is no clearing account in operation.

/Table 11

Table 11

INTER-LATIN-AMERICAN TRADE THROUGH CLEARING ACCOUNTS:
BILATERAL SURPLUSES AND DEFICITS IN 1956

(Millions of dollars)

	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Uruguay
Argentina	x	-5.9	-22.2	a/	+7.2	-0.03	+2.1	-4.2
Bolivia	+5.9	x	+2.1	a/	+0.3	a/	a/	a/
Brazil	+22.2	-2.1	x	a/	-0.1	a/	a/	+10.4
Colombia	a/	a/	a/	x	a/	+4.6	a/	a/
Chile	-7.2	-0.3	+0.1	a/	x	-0.2	a/	a/
Ecuador	+0.03	a/	a/	-4.6	+0.2	x	a/	a/
Paraguay	-2.1	a/	a/	a/	a/	a/	x	-0.2
Uruguay	+4.2	a/	-10.4	a/	a/	a/	+0.2	x
Positive balances +	32.4	-	2.2	-	7.7	4.6	2.3	10.4
Negative balances -	9.3	8.3	32.6	4.6	0.1	0.23	-	4.4
Net balances	+23.1	-8.3	-30.4	-4.6	+7.6	+4.3	+2.3	+6.0

Source: Central Banks and monetary authorities.

Note: The signs (+) and (-) correspond to the countries at the top of the columns.

a/ There is no clearing account in operation.

/Table 12

Table 12

INTER-LATIN-AMERICAN CLEARING ACCOUNTS: COMPARISON OF DISEQUILIBRIA AND SWING CREDITS ON THE HYPOTHESIS OF A MULTILATERAL SYSTEM DURING THE TRIENNIUM 1954-56

(Millions of dollars)

	Margins of credit at the beginning of each year		Surplus or deficit in the year concerned	Disequilibrium not covered by credits	Margins of credit at the end of each year	
	Credit	Debit			Credit	Debit
			1954			
Argentina	68.0	68.0	+ 7.5	-	60.5	75.5
Bolivia	3.5	3.5	+ 1.1	-	2.4	4.6
Brazil	46.2	46.2	+ 15.2	-	31.0	61.4
Colombia	-	-	- 6.5	- 6.5	-	-
Chile	19.0	19.0	- 27.3	- 8.3	38.0	-
Ecuador	2.3	2.3	+ 7.6	+ 5.3	-	4.6
Paraguay	7.0	7.0	- 4.3	-	11.3	2.7
Uruguay	12.0	12.0	+ 6.7	-	5.3	18.7
Total	158.0	158.0	+ 38.1	+ 5.3 - 14.8	148.5	167.5
			1955			
Argentina	60.5	75.5	+ 8.5	-	52.0	84.0
Bolivia	2.4	4.6	- 2.5	-	4.9	2.1
Brazil	31.0	61.4	- 23.3	-	54.3	38.1
Colombia	-	-	- 6.2	- 6.2	-	-
Chile	38.0	-	+ 25.5	+ 8.3 a/	20.8	17.2
Ecuador	-	4.6	+ 6.4	+ 6.4	-	4.6
Paraguay	11.3	2.7	+ 1.7	-	9.6	4.4
Uruguay	5.3	18.7	- 10.1	-	15.4	8.6
Total	148.5	167.5	+ 42.1	+ 14.7 - 6.2	157.0	159.0
			1956			
Argentina	52.0	84.0	+ 23.1	-	28.9	107.1
Bolivia	4.9	2.1	- 8.3	- 6.2	7.0	-
Brazil	54.3	38.1	- 30.4	-	84.7	7.7
Colombia	-	-	- 4.6	- 4.6	-	-
Chile	20.8	17.2	+ 7.6	-	13.2	24.8
Ecuador	-	4.6	+ 4.3	+ 4.3	-	4.6
Paraguay	9.6	4.4	+ 2.3	-	7.3	6.7
Uruguay	15.4	8.6	+ 6.0	-	9.4	14.6
Total	157.0	159.0	+ 43.3	+ 4.3 - 10.8	150.5	165.5

Source: Central Banks and monetary authorities.

a/ This figure was established on the basis of the hypothesis that the country concerned, should its debit position vis-a-vis the other members be reversed, will in the first place have the right to recover such convertible foreign exchange as it may have disbursed when its deficit exceeded the level of its credit.

/Annex II

Annex II

REGISTRATION OF OPERATIONS TRANSACTED THROUGH INTER-LATIN-AMERICAN CLEARING ACCOUNTS AND EXCHANGE OF COMPARABLE DATA

E/CN.12/C.1/WG.1/2

5 April 1957

REGISTRATION OF OPERATIONS TRANSACTED THROUGH INTER-LATIN-AMERICAN CLEARING ACCOUNTS AND EXCHANGE OF COMPARABLE DATA

I. INTRODUCTION

At the first session of the Trade Committee of the Economic Commission for Latin America (Santiago, November 1956), the countries in this region which liquidate the values of their reciprocal trade through clearing accounts resolved, with a view to the progressive attainment of a multilateral payments régime, to promote the application of the measures set forth in resolution 1(I) of the Committee. These include the periodical and opportune exchange between Central Banks or corresponding monetary authorities of data on the situation of the inter-Latin-American clearing accounts, with the aim of facilitating the transfer of balances as envisaged in the same resolution.

It is worth recalling that the exchange of such information, on bases similar to those indicated in resolution 1(I), was also the modest first step towards the same end taken by Europe in 1947, and that to put it into effect various obstacles had to be overcome. Over and above its results with respect to the transfer of balances, this first experiment has had the merit of promoting close co-operation in the sphere of payments among the European countries concerned. It is well known that at the stage it has now reached, characterized, inter alia, by a monthly conference in Basle, where directors of Central Banks meet to seek solutions for common problems, the experiment is contributing to the normal conduct and expansion of European trade.

Under the terms of resolution 1(I) of the Trade Committee such an exchange of information would imply:

(a) The periodic compilation, on comparable bases, of statistics on the development and balances of the inter-Latin-American clearing accounts; and

(b) The regular distribution of the whole body of these statistics, duly classified, among the Central Banks or corresponding monetary authorities of the clearing-accounts countries.

Last January, in order to collect the background data required for the proper organization of this exchange of information, the secretariat sent

/out a

out a questionnaire to the Central Banks or equivalent monetary authorities. In the first place, the replies to this questionnaire revealed eagerness to co-operate on the part of the institutions consulted, most of whom had had practical experience of the drawbacks attendant upon unco-ordinated methods of registering the operations transacted through the accounts, and of the consequent difficulties in checking one country's record of balances against another's. Secondly, the information supplied - which is summarized below - was of great value for the more efficient implementation of this aspect of resolution 1(I).

II. BASES FOR THE APPLICATION OF STANDARD METHODS IN THE REGISTRATION OF OPERATIONS AND DETERMINATION OF BALANCES

1. Registration of operations

At the present moment heterogeneous methods are adopted for registering movements within the clearing accounts; nor is it always at the same stage of the transaction that the various countries classify these movements under specific concepts or items.

In some countries payments operations with exporters and importers are conducted directly by the Central Bank, which authorizes their inclusion in the account concerned and classifies them under certain predetermined concepts. In others, although the payments are actually effected through commercial banks, the current practice of communicating each operation to the Central Bank enables this latter to register it under the appropriate concept in the corresponding clearing account. There are also cases where the information supplied by the commercial banks indicates only the value of the transaction, without such details as would permit its classification under any one group or item in the clearing account.

The same applies to notice of the annulment of operations or of a change in the value originally declared. Independently of the registration of these operations in the account, another State department, working on the basis of special documents submitted by the commercial banks, and with a view to the study of the balance of payments, subsequently classifies transactions in some considerable detail, mainly in order to ascertain the amounts corresponding to visible and invisible trade.

To judge from the replies received from the Central Banks or corresponding

/monetary authorities

monetary authorities consulted, opinion is clearly in favour of the establishment of a standard classification to be used for registering operations in the accounts, as a target which might be reached within a relatively short space of time. Such a classification might take approximately the following form:

A. Receipts:

F.o.b. value of exports
Freights and port dues from abroad
Commission charges and other foreign trade expenditures
Investment of foreign capital within the country
Repatriation of capital
Financial servicing from external sources
Insurance and re-insurance premiums
Consular fees
Other operations

B. Expenditure:

C.i.f. value of imports
Freights and port dues transferred abroad
Commission charges and other foreign trade expenditures
Investment abroad
Outflow of capital
Financial servicing to be covered abroad
Insurance and re-insurance premiums
Consular fees
Other operations

2. Balances

In the initial phase of progress towards a multilateral payments system, resolution 1(I) envisages two possible types of transfers of balances from a given inter-Latin-American clearing account to others within the region. The first are automatic transfers, when the operation involves sums in excess of the level of the bilateral credits concerned, and the second are voluntary transfers, when the operation relates to values falling within the limit of these credits.

At the present time, the balances shown on one and the same date in a given master account and in the duplicate account kept by the other signatory to the clearing agreement in question often fail to coincide. Such discrepancies are a result of the lack of uniformity both in methods of registration and in the attitudes adopted to the basic question of whether the final balances computed in the account should be those deriving from operations already liquidated, or whether they should include documentary

/credits and

credits and other commitments relating to transactions which are only in their initial stages on the date when the balance-sheet is closed, and which will presumably be wound up later on.

In this context, recognition of the positive importance attaching to knowledge of balance trends has given rise to the observation that a transfer régime might not work well if it were based on figures other than those of the balance deriving from transactions already liquidated. If a different method were adopted, and in determining the balance for transfer purposes the figures for transactions under way but not completed were also taken into account, it would not perhaps be very easy to establish at fixed intervals a final net balance on which possible transfers could be based. If the country keeping the duplicate account should not be in agreement with the figures arrived at on this basis by the clearing-account country responsible for the master account, the resulting consultations between the two parties on the adjustment of the balance might give rise to delays which would hold up the regular functioning of the mechanism. Incidentally, it may be added that if the tenor of the foregoing comments were approved, this would mean that the official figures for any transfer of balances would be those periodically communicated, on the basis of operations already liquidated, by the Central Bank or monetary authority keeping the relevant master account.1/

Apart from the determination of the balance corresponding to operations already liquidated, on the lines referred to below, the statistical and potential balances would also be established, so as to provide background data on the trends or possible evolution of each country's net position in the account concerned. The additional information obtained from these two balances would be of special interest to countries wishing to effect voluntary transfers. They would also supply the want of more complete data than are at present available to guide, in specific situations, certain Central Banks which purchase agreement-dollars in order to maintain quotations for these currencies at a given parity with convertible foreign

1/ See Bases for the draft standard agreement on a payments régime (E/CN.12/C.1/WG.1/3), section B, point 6, second paragraph.

/exchange. When

exchange. When such purchases stop short at the point corresponding to the margin of credit agreed upon between Central Banks, the regular flow of exports is liable to be seriously interrupted, as the exporter is left uncertain as to the rate of exchange he will obtain for the agreement-dollar in the future. If the Central Bank of the creditor country knew that the other contracting party were arranging to effect imports whose value would reduce the debit balance within a fairly short space of time, it might not break off its purchases of agreement-dollars at parity prices, even if the real balance were already reaching the critical level; it would be more likely to continue buying them according to the new situation revealed by the information received. From this standpoint, knowledge of the balance trends may prove a normalizing factor in regional payments operations, as advocated in resolution 1(I) of the Trade Committee.

To sum up, the inference to be drawn from the consultations is that opinion is definitely in favour of the compilation of data in such a way as to provide the following information, either monthly or every two months:

(a) The real balance, or that computed in the master account on the basis of trade operations already liquidated;

(b) The statistical balance, or that deriving from the sum of the real balance and the documentary credits received in payment for future exports, minus the value of documentary credits covering imports to be effected; and

(c) The potential balance, or the statistical balance modified in accordance with the estimate of operations under way, which are ascertained, according to the practices prevailing in each country, through export or import permits or licences, prior deposits, the amount of foreign exchange sold at auction, options on the sale of foreign exchange, etc.

The draft form attached indicates how the pertinent data, once compiled, might be distributed to the Central Banks or monetary authorities of the inter-Latin-American clearing-accounts countries.

3. Banking procedure

In the course of the consultations information was collected on the so-called "bank procedure" agreements concerted directly by the Central Banks when they are empowered to do so by the payments agreements concerned, the object being to establish rules for the conduct of the operations

/covered by

covered by the account. The bank procedure regulations relate mainly to the following points:

(a) The degree to which the commercial banks intervene in the implementation of the agreement;

(b) Procedures for the opening of documentary credits (whether irrevocable or not) by the commercial banks, and for the posting or cabling of orders of payment;

(c) The mechanism for recording in the accounts (reimbursements) payments made in accordance with documentary credits and orders of payment;

(d) The method of annulling or modifying operations; and

(e) The system for exchange of information on movements and balances in the accounts.

A preliminary examination of the information collected suggests the possibility of a considerable degree of standardization of bank procedure in the various inter-Latin-American clearing accounts, as well as of the corresponding forms. Among the data that could be obtained as a result of this rationalization would be those required for preparing the commodity trade balance-sheets referred to under the following heading.

4. Balance-sheets by commodities

Current methods of registering operations in the accounts do not usually record the name of the commodity traded or the volume involved. Consequently, to interpret the balance-sheets in relation to the goods concerned, it is often necessary to resort to the trade balance figures, which cannot always be obtained as promptly as would be desirable. Since the success of the multilateral transfer mechanism will to some extent depend upon a parallel course of action aimed at reducing disequilibria through an expansion of commodity trade, it may be important to ascertain in good time the weight carried by each commodity in the formation of totals and balances in the accounts, and its influence on their fluctuations.

To this end, in the course of the consultations the Central Banks were asked whether they considered it feasible for a balance-sheet to be systematically drawn up by commodities, alongside that in which the figures were classified by concepts, totals and final balance. From the replies received it was clear that the authorities consulted were particularly

/interested in

interested in this topic. Some stated that they were in a position to prepare additional balance-sheets by commodities straight away, although as a rule without giving details of the volumes traded. Most of the Central Banks, because of the current methods of registering operations in the accounts, are not at present in possession of the data required to draw up balance-sheets of this type; but they do not exclude the possibility that the gradual standardization of Latin American registration methods, with a view to the co-ordination of the clearing mechanisms which at present function independently, may enable them to prepare such information at a later date.

5. Other topics

(a) Location of the master and duplicate accounts

The replies suggested that this should be left to the discretion of the contracting parties in each case.

(b) Comparison of records

The prevailing opinion was that registers should be compared monthly. One point of view advocated fortnighly checking.

(c) Balance-sheets

To judge from the answers to the questionnaire, the general feeling seems to be that such balance-sheets should not be drawn up for periods dating from the entry into operation of the relevant agreement, but for terms based on the last day of the month concerned, if the balance-sheet is prepared every month, or of the calendar year, if it is drawn up annually. Moreover, this is a practice already in common use in the region.

III. CONCLUSIONS

From the replies of the Central Banks and equivalent monetary authorities it could be deduced that the following procedures were generally considered to be advisable:

1. Application of standard methods

(a) The authorities consulted deemed it both advantageous and feasible to establish common standards for the registration of operations and the determination of balances in the inter-Latin-American clearing accounts, such operations being classified under groups or concepts approximately

/corresponding to

corresponding to those indicated in point 1 of section II of the present document. Broadly speaking, the Central Banks considered this preliminary step of great practical importance for the possible transition from the prevailing bilateralism to the desired multilateral system.

(b) It would be useful to fix a term, perhaps not shorter than the remainder of 1957, within which the Central Banks or equivalent organizations could adapt their system of registering the operations transacted through the accounts to the groups or concepts mentioned.

(c) It seems desirable to define bases for consistent collaboration between the appropriate Latin American institutions, with the aim of gradually co-ordinating the bank procedure regulations of the various clearing accounts, and standardizing their basic aspects.

2. Periodic compilation and distribution of information

(a) The compilation and exchange of comparable data on the inter-Latin-American clearing accounts can be initiated immediately, but in the preliminary stage this process should be confined to the totals and balances resulting from the operations registered in the accounts as already liquidated.

(b) Information on balance-sheets should be cabled at the intervals agreed upon - either on the last day of each month, or every two months - and should comprise the real, statistical and potential balances in every inter-Latin-American clearing account. As soon as the reform of the registration methods permitted, such information would be extended to include data on movements of goods and services grouped by concepts. (The draft form attached shows how the data compiled would be presented for distribution to the Central Banks and equivalent monetary authorities.)

Country..............................

SITUATION OF THE BILATERAL ACCOUNTS WITH LATIN AMERICAN COUNTRIES

on..............................

(Thousands of dollars)

Country	Receipts a/	Expenditure a/	Real balance (balance of the account) b/	Documentary credits for:		Statistical balance (D)+(E)-(F)	Sales concerted c/	Pending balance (permits, licences, options on foreign exchange, prior deposits, etc.)	Potential balance (G)+(H)-(I)
				Exports	Imports				
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)

a/ Cumulative figures since 1 January 1957.
b/ Cumulative balance of the account.
c/ These figures do not include documentary credit operations.

Annex III

BASES FOR THE DRAFT STANDARD AGREEMENT ON A PAYMENTS REGIME

E/CN.12/C.1/WG.1/3

5 April 1957

BASES FOR THE DRAFT STANDARD AGREEMENT ON A PAYMENTS REGIME

I. INTRODUCTION

1. At the first session of the Trade Committee, held last November at Santiago, Chile, the inter-Latin-American clearing-accounts countries adopted various decisions (see resolution 1(I)) aimed at imparting flexibility to their current payments relationships and at the gradual establishment of a multilateral régime.

2. As can be seen in the resolution referred to, the countries in question deemed it desirable to adopt concurrently, at the time considered most appropriate, specific principles on which to base their reciprocal dealings. These basic principles are as follows:

"(a) Equal quotations for units of account and convertible currencies on the exchange markets concerned, for the same operations;

(b) Trade at prices not higher than those prevailing on the world market. If no bases for comparison are available, quotations shall not exceed prices paid by any third country under the same conditions;

(c) Payment through the agreement-accounts of the following items, inter alia:

(i) The value of traded commodities;

(ii) Freight charges relating to direct traffic;

(iii) Insurance and reinsurance;

(iv) Other expenditures accessory to trade;

(v) Other items agreed upon by the contracting parties;

(d) Reciprocal credits adequate for the satisfactory development of trade, due allowance being made for seasonal fluctuations;

(e) Automatic transfers to the accounts of other countries participating in the system of transfer of balances, through communication with the Central Bank of the debtor country, of sums in excess of the stipulated swing credits;

/(f) Transfer from

(f) Transfer from one to another of the above-mentioned countries' accounts, by prior agreement between the Central Banks concerned, of favourable balances within the swing credits."

3. Among the factors that might to some extent help to convert the rigid bilateralism characterizing the present system of trade through clearing accounts into a more flexible trade régime, pending its subsequent replacement by a multilateral mechanism, would be the preparation of a model or standard payments agreement. Here it may be recalled that the Hague Club, for example, is a multilateral payments organization which is in practice the outcome of the simultaneous application of a group of identical bilateral agreements.

A twofold purpose would be served by the preparation of a standard agreement for intra-regional payments relationships in clearing accounts. On the one hand, it would allow some idea to be formed of how far the general principles advocated in resolution 1(I) are applicable in the initial stage of inter-Latin-American collaboration at the level in question, in view of the different characteristics of trade transactions in each bilateral channel. Secondly, the agreement would provide some sort of guidance for the gradual establishment of more or less uniform regulations as the pacts in force were renewed or new ones were concluded. In addition, it would facilitate the task of concerting a common instrument for the ultimate establishment of the multilateral régime.

Alongside these considerations, another of basic importance must be emphasized. The heterogeneous nature of the various inter-Latin-American agreements in force exerts a depressive influence on trade, since it helps to freeze bilateral balances by making them, in practice, non-transferable, and thereby aggravates the effects of other problems such as the non-observance of parities, the fall in relative prices for units of account, and the consequent discouragement and overpricing of exports. Hence the importance for the growth of Latin American trade of the co-ordination or standardization of the main clauses in such agreements.

4. It is not always easy or possible to devote separate clauses in the agreements to payments questions and to trade matters, or to deal with them in different instruments. In actual fact, there are several problems

/which partake

which partake of the characteristics of both, especially in the case of countries whose foreign trade is subject to direct controls deriving from the exchange system. In Latin America, therefore, it often happens that instruments are concluded which deal indiscriminately in the same text with questions of both types.1/

At the present stage of the work pursuant to resolution 1(I), the preparation of the draft standard agreement would be confined to topics specifically belonging to the sphere of payments. Consequently, trade problems involved in payments regulations would be approached only when absolutely necessary, and from their own special standpoint.

5. The various questions arising from the existing agreements and from their lacunae have been analysed in another document,2/ which also gives some account of the occasionally conflicting opinions expressed in the region, or embodied in the bilateral agreements, on matters of both basic and secondary importance for intra-regional trade. Subsequently to the preparation of this document, which dates from August 1956, the inter-Latin-American clearing-accounts countries accorded recognition to certain general principles relating to the most important topics (parities, prices, etc.).

On these bases, plus the text of the agreements in force, and with due regard to resolution 1(I) of the Trade Committee, which advocates the need to promote the transition to a multilateral régime, the Working Group concerned will attempt at its first meeting to draw up the draft standard agreement, or at all events to make substantial progress towards this objective.

II. TOPICS FOR DISCUSSION

1. Aims

It would be established that the purpose of the agreement was to determine norms for payments relationships between the contracting parties and to facilitate their gradual adaptation to a multilateral régime.

1/ The Hague Club agreements deal with certain questions specifically relating to trade in an additional document entitled Protocol on trade.

2/ See Payments and trade in Latin America (E/CN.12/C.1/3) pp. 57-74.

2. Operations covered by the agreement

In this context, the initial clauses would define the nature of the payments to be subject to the provisions of the agreement, and would determine whether these provisions would cover any or all of the following items:

(a) Payments entailed by direct foreign trade transactions between the contracting parties, whether accruing from trade in commodities produced in their territories or corresponding to expenditure on commercial services inherent in such trade;

(b) Payments deriving, by prior agreement between the corresponding Central Banks in each case, from the sale or purchase by one of the parties of goods produced in other countries;

(c) Payments corresponding to automatic or voluntary transfers of balances to or from third parties, under the terms of resolution 1(I), paragraphs (e) and (f);

(d) Freight earnings of vessels belonging to the contracting parties for transport of commodities covered by the agreement between the ports of the two countries;

(e) Expenditures and repair costs for shipping under each country's flag in ports belonging to the other;

(f) Freights and insurance relating to trade transactions conducted by either of the contracting parties with third Latin American countries, possibly after prior consultation in each case between the Central Banks concerned;

(g) Remittances to students;

(h) Payments connected with frontier trade; and

(i) Other payments for operations of any kind, authorized in each case by agreement between the Central Banks of the contracting parties.

3. Accounts and currencies

This part of the agreement would relate to the clearing account which will have to be kept for the liquidation of payments on transactions covered by the agreement, as well as to the units of account to be used in the invoices presented by dealers in each country and in the recording of operations on the books of the account. It would also indicate whether the

/account is

account is to be kept in accordance with one of the following systems, or some other:

(a) A master account kept by the contracting party indicated in the agreement concerned. This would not mean that the other contracting party might not also keep an account, but for informative purposes only, as the official balance would be that resulting from the master account;

(b) Counterpart accounts. Each contracting party keeps the books for a part of the operations. The final balance is obtained by combining the balances in the two accounts.

4. Liquidation of payments and documentary credits

Under the terms of this clause, payments covered by the agreement would be directly effected between the Central Banks of the contracting parties or through other banks or institutions, in the form concerted by the banks through a "bank procedure" agreement.

The text of the standard agreement would contain a proviso authorizing the Central Banks to empower commercial banks in each of the contracting countries to open whatever documentary credits might be necessary for trade purposes, in accordance with banking practices. These credits would be reimbursed at the time when the operations were actually put into effect under the clearing account concerned, in accordance with the regulations appropiate to the case as established in the bank procedure agreement mentioned above.

5. Parities

The clauses relating to this point would be directed towards the practical application of one of the principles laid down in resolution 1(I) of the Trade Committee, pursuant to which each contracting party would adopt the necessary measures to ensure equal quotations in its territories for units of account and convertible dollars, on both the official and the free exchange market, for the same operations.

As this principle and another relating to transfers of balances would have to be applied concurrently, the following question might perhaps be posed here. To comply with the terms of the parity agreement it might prove necessary for the Central Bank concerned to intervene on the exchange market as a buyer of units of account when demand on the part of importers was

/insufficient. The

insufficient. The moot point would be whether such intervention should or should not cease if this same bank did not effect the transfer to a third country of the balance in excess of the stipulated swing credit, or if the Central Bank of the debtor country failed to cover the surplus in question at the proper time.3/

6. Official credits and balances

The relevant clauses would relate to the amount of the swing credits customarily granted by the contracting parties under the terms of the account. Consequently, they would determine the level above which payment of the surplus could be claimed in convertible foreign exchange, partially and/or totally negotiable by the creditor with third countries, either immediately or after the expiry of a given term.4/ If transfers to third parties amounting to less than the total surplus were effected, the debtor's commitment to cover the excess balance in convertible currency would be reduced by a sum equal to that of the transfers in question.

The agreement would also define whether the collectible balance, as well as the balance representing the limit beyond which the automatic transfers envisaged in resolution 1(I) could be effected, would be that resulting from the record in the master account of operations actually liquidated.

Furthermore, if the sum in excess of the amount of the official credit were regarded as the collectible balance, it would have to be established whether the balance should assume such a character, or should become transferable at the will of the creditor, by virtue of the mere fact that it exceeded the level determined in the agreement; or whether this would only be the case when, a specified period having elapsed since the registration of the balance in question, it was not reduced, by means of additional exports on the debtor's part, to a sum below the level fixed.

3/ Op.cit., p.58. See also the Report of the Trade Committee of the Economic Commission for Latin America (E/CN.12/C.1/7/Rev.1), pp.27 (paragraph 45) and 38.

4/ See resolution 1(I) of the Trade Committee, paragraph (e), on automatic transfers.

/The agreement

The agreement might also determine whether interest would or would not be payable on the debit balance.

Another point must be noted in the preparation of the standard agreement. In view of the special characteristics of some of the payments agreements already existing in the region, the new draft will possibly have to contain certain alternative clauses, valid, perhaps, during a transition period, with respect to the following two situations: (a) that of pairs of countries which trade on account without swing credits and automatically cover their debit balances with convertible dollars at the close of each half-year; and (b) that of pairs of countries which grant each other unlimited credit, payment being at no time collectible in convertible foreign exchange.

To bring this latter practice into line with the principles laid down in resolution 1(I), it would perhaps be advisable in such cases to introduce a clause providing for the voluntary transfer of part of the balance by prior agreement, on each occasion, between the Central Banks concerned. Consideration should also be given to the desirability of establishing a limit above which the surplus, while not becoming a receivable, could be transferred to third parties at the will of the creditor country.5/

7. Voluntary transfers

Also in connexion with paragraph (e) of resolution 1(I) of the Trade Committee, a system of prior consultation between the Central Banks concerned might be instituted in addition for cases in which balances covered by the swing credits are to be transferred to third parties.6/

8. Other regulations on balances

In addition to these points, others that might be considered in the relevant clauses would be the following:

(a) The debtor's right to pay off at any time part or all of the balance against him in the clearing account concerned, either in convertible

5/ See resolution 1(I) of the Trade Committee, paragraph (e); E/CN.12/C.1/3, p.71; E/CN.12/C.1/7 Rev.1, paragraphs 45-47.

6/ E/CN.12/C.1/7 Rev.1, p. 38, paragraph (f).

/dollars or

dollars or in other currencies agreed upon between the parties; and

(b) The debtor country's obligation in every case to settle balances by payments of 100,000 dollars or a multiple of this amount, according to the extent of the commitment.

9. Prior deposits

Both to encourage inter-Latin-American trade and to take advantage of external private credits, it might perhaps be possible to eliminate - still, of course, on a basis of reciprocity - the prior deposit and the immediate payment for allocations of foreign exchange exacted in some countries for commodity imports.7/

10. "Aforos" (official base values)

This is the term usually employed when the country authorizing imports assigns them a predetermined maximum unit value, with a view to limiting the corresponding authorization to the value thus fixed.

In preparing the regulations to be embodied in the standard agreement, it would have to be decided whether they were to include prior consultation between the parties, with a specified period for reply, as to the unit values which the importer country wished to fix as the official base values for certain products, or as to the modification of these same values when they were already established.8/

11. Temporary exports and imports

Consideration might be given to the desirability of the agreement's containing a clause to facilitate the implementation of agreements relating to temporary imports of raw materials for industrial processing and subsequent re-export. In such cases, when the agreement had been approved by the appropriate foreign trade authority, the movement of goods concerned would not be included under the current payments mechanism. This would cover only the value added in the transforming process.

12. General provisos

Decisions would have to be reached on such points as the following:

(a) Whether in matters relating to payments and exchange control not expressly stipulated in the agreement the parties should grant each

7/ See E/CN.12/C.1/3, pp.26 (last paragraph) - 27.

8/ See E/CN.12/C.1/3, p. 61.

/other treatment

other treatment not less favourable than that accorded to third parties;

(b) Whether the agreement should be put into provisional effect pending ratification, and for how long. Its duration would also have to be indicated, and regulations laid down for its prolongation by tacit consent and for its denunciation. (This last, for example, should perhaps be effected not less than three months before the expiry of each year for which the agreement is in force);

(c) Whether, in order to liberalize their reciprocal trade from the quantitative standpoint, the parties should grant each other exemption from licence or exchange permit requirements for each export and import operation, reserving the right to make exceptions in the case of certain commodities specifically indicated in the agreement;

(d) Whether the parties should declare in general terms their intention of replacing the bilateral agreement in due course by another compatible with the operation of the multilateral payments régime envisaged in resolution 1(I) of the Trade Committee; and

(e) Whether, on the expiry of the bilateral agreement, the clearing account concerned should remain open for a given length of time for liquidation purposes. The term fixed might be from 6 to 9 months. The only object would be the registration of payments corresponding to operations begun while the agreement was in force, or deriving from trade transactions authorized by the parties under the terms of the agreement after its denunciation, provided that this was done in order to reduce or cover the debit balance. Once the period assigned had elapsed, the balance outstanding would be payable in convertible foreign exchange, unless other arrangements had been made.