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GENERAL AGREEMENT ON TARIFFS AND TRADE

Multilateral Trade Negotiations

GROUP 3(a) - STATISTICAL PRACTICES IN PRESENTING TRADE DATA IN PERIODS OF EXCHANGE RATE INSTABILITY

Technical Note by the Secretariat

1. In its first meeting 11-15 March 1974, Group 3(a) asked the secretariat to prepare a technical note on the practices followed by national and international statistical services in compiling and presenting trade statistics in a system of unstable exchange rates.

2. The request of Group 3(a) covers practices relating to two distinct processes of conversion. The continuous statistical reporting on the basis of which national trade returns are calculated originates in the customs offices at the borders. The importers or the customs officials have to convert trade values expressed in the transaction documents in different currency units into the national currency; and they use for this purpose exchange rates indicated to them by the central (national) customs authority. Then there is a second process in which national or international statistical services convert consolidated trade data expressed in national currencies into some common reference unit for the purpose of international comparison.

3. Until May 1971, major trading countries maintained fixed exchange rates with stable cross rates between currencies. The par values or central rates were generally used for the compilation of national trade data from transaction documents denominated in foreign currencies, and for the conversion of national trade returns into United States dollars, the common unit of reference in the post-war years. Only a few countries allowed occasionally their currencies to float, or maintained wider margin of fluctuation than that agreed in the International Monetary Fund. Multiple exchange rates were used only exceptionally during the last decade.

4. From 1971 onwards, frequent parity changes, enlargement of the margins and at first intermittent but increasingly general floating made it difficult to apply single and uniform rate of conversion to foreign trade data. Conversion into United States dollars, or whatever other reference unit may have been chosen, became complex and necessarily imprecise. Nevertheless the United States dollar has continued to be generally used as reference currency for foreign trade data compiled by international agencies. SDR's have been used in certain cases for financial statistics.

5. In general, invoices expressed in foreign currencies are presently converted for customs and statistical purposes into national currency at spot market rates. The rates applied are usually the average daily rates or the most recent recorded market rates. Certain customs administrations, however, determine the rates applicable to foreign trade transactions on a weekly basis, and in still other cases, the rates are modified at less regular intervals. The date of the exchange rate used for the conversion corresponds in most cases to the date at which the customs declaration is made, i.e., usually when the merchandise crossed the frontier or entered for home use, but in a few other cases to the date of exportation. Thus, the daily rates are those of the same day or of the day preceding customs clearance, the weekly rates are generally the (unweighted) averages of the daily rates prevailing in the week preceding that of the customs declaration. For currencies which have been relatively stable, fixed rates are often used as long as the currency fluctuation does not exceed a certain margin. For instance, in one country the rate certified by the Central Bank on the first day of each calendar quarter is used for every day in the quarter as long as the exchange rate fluctuates less than 5 per cent. When the fluctuation is 5 per cent or more from the certified rate at the beginning of the month, the daily rate is used for that day. As a rule, the date applicable for conversion of the trade data is independent from the date of the invoice or of the corresponding payment. As a result of these practices, the rate used for conversion of foreign invoices does not often correspond to the exchange rate at which the transaction was settled. Although many currencies have been allowed to float, fixed exchange rates are still used for transactions between countries which have pegged their currencies together.

6. To avoid distortions, the rates (or the cross rates) applied to conversion of foreign trade invoices should ideally also apply to compilations of internationally comparable foreign trade values. This, however, is not possible. Conversion of foreign trade data from national currency into a common reference currency unit is not made currently, on a daily or weekly basis, and period averages of daily market quotations or averages of the rates applied by the customs on the daily or other basis are used. These averages are usually not weighted by the corresponding volumes of trade. The rates (or the cross rates) applied in this case are therefore not strictly the same as those used for customs clearance purposes except for countries that maintained a single rate with respect to the reference currency, either at fixed parity or within a narrow margin.

7. In certain countries the conversion of foreign trade returns from the national to the reference currency is made regularly, usually on a monthly basis, by national authorities. For other countries, trade values are converted into the reference currency by international agencies. For most industrial countries, this conversion is made on a monthly or quarterly basis at rates which are based on the average of the daily transaction rates recorded in the period. The rate used for cumulative data is either derived from the monthly average of daily rates or, if available, from national trade values expressed both in the national currency and in the reference unit. Quarterly or annual conversion factors are also used in cases when adjustments or corrections have to be made in annual figures.

8. World trade statistics compiled by the IMF are converted into United States dollars on a monthly basis at a rate which is an unweighted average of daily market quotations. Monetary reserves are reported by the IMF in SDR's (corresponding, until a new method of valuing the SDR's is agreed upon, to the pre-August 1971 dollar), foreign trade data in current United States dollars.

9. The United Nations Statistical Office also reports foreign trade in current United States dollars and applies the same rates as the IMF. For quarterly, or other cumulative data, the conversion factor is the average of monthly rates weighted by the value of trade passing the customs in each month.

10. In the OECD, comparative foreign trade data are also compiled in current United States dollars, the rates appropriate for conversion from national currencies being communicated to the OECD Secretariat by national authorities in a monthly questionnaire. The national authorities concerned are either the customs or the Central Banks, and the rates they supply correspond in most cases to unweighted averages of daily market rates. In the case of certain countries, the OECD used the central rates of their currencies to the dollar in 1972 but the practice became exceptional in 1973.

11. Foreign trade statistics of the European Communities are reported in the Communities' unit of account which is defined as equivalent to 0.888671 grammes of gold valued at US$35 a troy ounce; until 1971, it had the same par value as the United States dollar. Through 1971, the par value was also used in the conversion of statistics from national currencies into the unit of account. In 1972 and 1973, statistical conversion from national currencies was made by using the central rates.