



BANCO CENTRAL
DEL URUGUAY

Measuring global production: the case of Merchanting in Uruguay Central Bank of Uruguay

Special Session for EECCA and SEE countries
9 April 2019, Geneva, Switzerland

Kariné Hagopian*,
Nadia Silvosó, Agustín Fernández.

** The views expressed in this paper reflect the opinions of the author only and do not necessarily reflect those of the Central Bank of Uruguay*

Presentation Outline

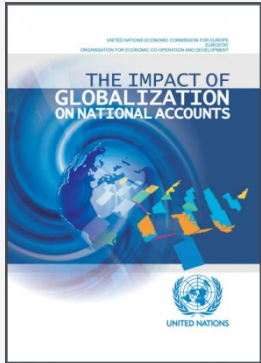
1. Motivation and objective
2. Definition of merchanting
3. Merchanting in Uruguay
4. The sequence of accounts for companies of merchanting
5. Balance of Payments Publication
6. Final considerations

1. Motivation and objective

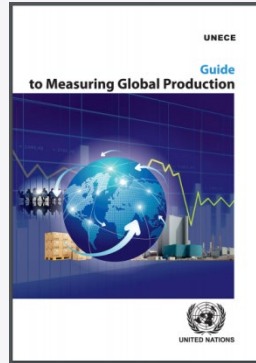
- Approaching the phenomenon of merchanting and its impact in the host economy, following the recommendations of the Balance of Payments Manual (2009) and the System of National Accounts (2008), looking for the harmonization between both systems.

2. Definition of Merchanting

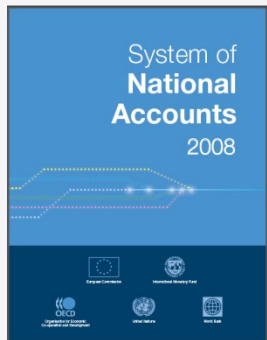
Conceptual Framework:



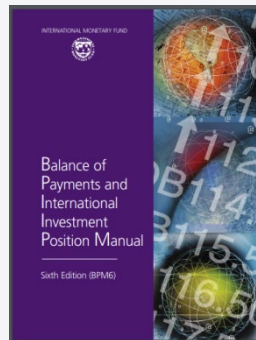
New York and Geneva, 2011



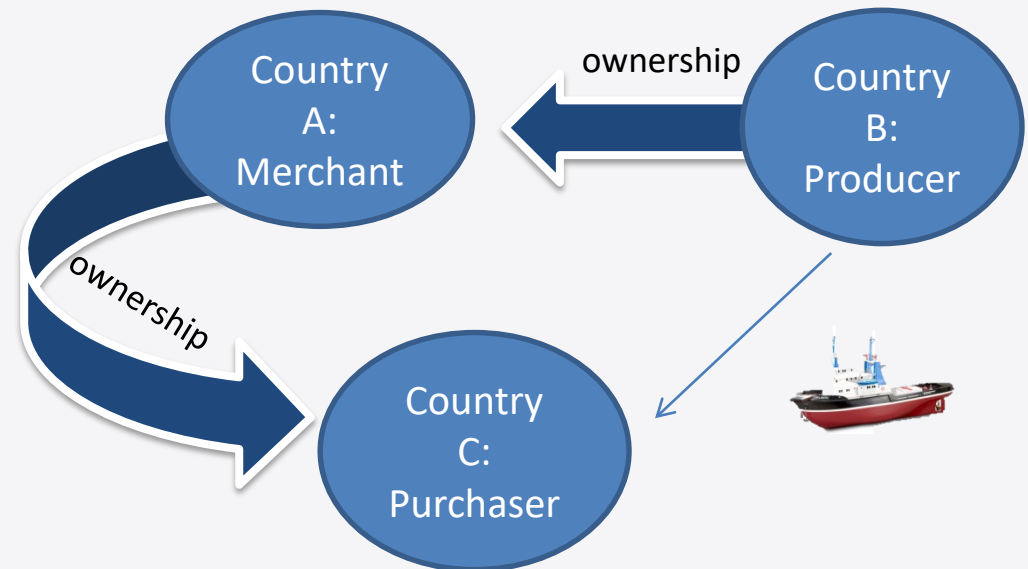
New York and Geneva, 2015



New York, 2009



Washington DC, 2009



- Equal definitions
- Coherence and consistency

2. Definition of Merchanting

Measurement difficulties:

- How to obtain the information regarding companies whose trading activity is not part of the customs records
- How to estimate changes in inventories
- How to estimate holding gains or losses
- Lack of a register of companies of merchanting
- Difficulties in the identification and handling of the economic groups of which these companies are part

3. Merchanting in Uruguay

Table 1: Exports and Merchanting in Uruguay 2012-2017

Millions of dollars

Detail of Exports/Year	2012	2013	2014	2015	2016	2017
Exports-Total	13.055	13.277	13.769	11.145	10.379	10.779
Exports of General Merchandise	11.030	11.360	11.443	10.013	9.126	10.016
Net exports of goods under merchanting	2.025	1.917	2.326	1.132	1.253	763
Goods acquired under merchanting (negative exports)	-40.034	-45.914	-43.178	-37.000	-37.621	-41.274
Goods sold under merchanting (exports)	42.060	47.831	45.504	38.132	38.874	42.038
Gross Domestic Product (current)	51.391	57.599	57.315	53.449	52.980	59.215

Characterization:

- 68 companies surveyed. The 10 largest reach the 80% of the total in terms of equity.
- Main activities: trade of grains, oil and related products and industries, trade of some manufactured products
- Low or no taxation: a significant number of them are located on Free Trade Zones.
- 100% Foreign Direct Investment

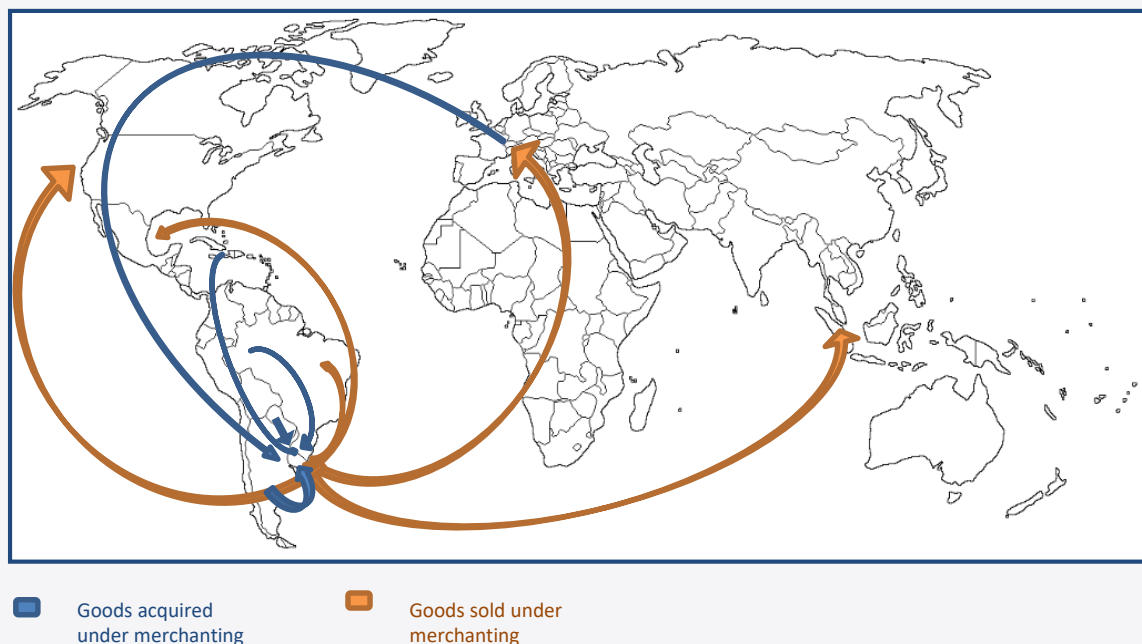
3. Merchanting in Uruguay

FDI 2017- Equities

Millions of dollars

Country	FDI-Equities	%
Switzerland	1.891	42%
Brazil	856	19%
Cayman Islands	471	10%
United States	277	6%
Argentina	214	5%
Canada	185	4%
Netherlands	172	4%
Bermuda	165	4%
Spain	73	2%
Sweden	52	1%
Luxembourg	48	1%
Denmark	28	1%
Germany	24	1%
British Virgin Islands	15	0%
Japan	14	0%
China	13	0%
Hong Kong	10	0%
Panama	9	0%
France	8	0%
The Bahamas	2	0%
Peru	0	0%
Total	4.526	100%

Trade flows of companies of merchanting in Uruguay 2017-millions of dollars



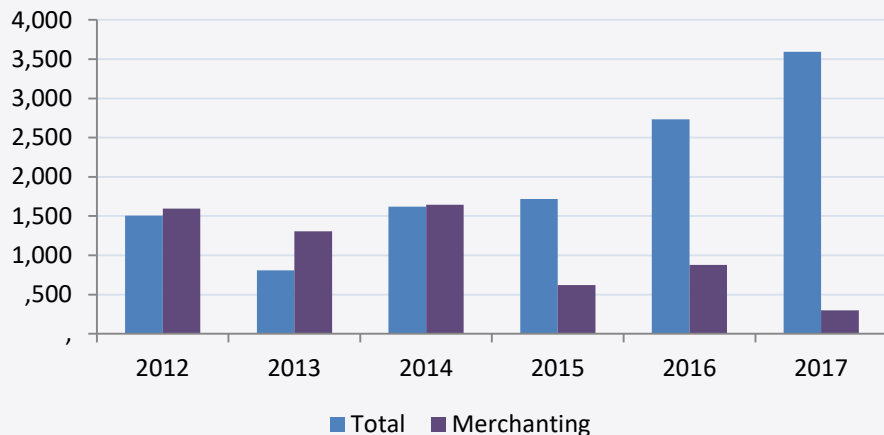
Country	Goods acquired	%	Country	Goods sold	%
Not classified	10.880	27%	Not classified	16.868	41%
Argentina	10.327	25%	Switzerland	6.661	16%
Cayman Islands	5.181	13%	Singapur	3.820	9%
Brazil	4.833	12%	Brazil	2.952	7%
Paraguay	2.041	5%	United States	2.415	6%
Switzerland	1.779	4%	Mexico	1.848	4%

- 13% of Direct Investment in Uruguay equities
- In 2017 the primary income of these companies represented the 18% of the total

3. Merchenting in Uruguay

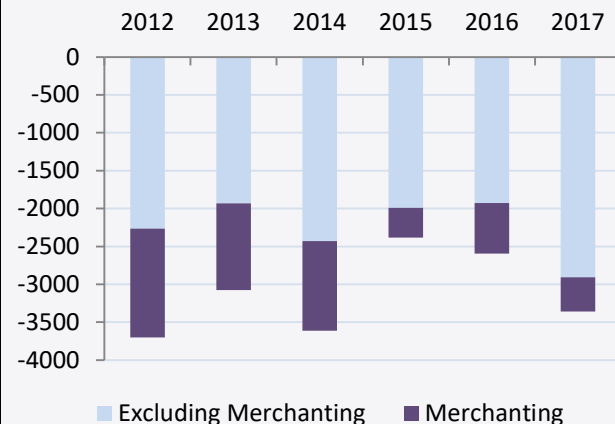
Balance of Goods and Services

Millions of dollars



Balance of Primary

Income Millions of dollars



- Balance of goods and services becomes more complex as a result of changes in merchenting, many times generating confusion to analysts and other users
- Trading in merchenting has a different dynamic from other forms of trading
- Phenomenon characterized by a great volatility ➡ significant sensitivity to changes in prices
- Property income paid abroad makes the positive balance of the Account of Goods and Services turn into a negative Current Account balance

4. The sequence of accounts for companies of merchanting

Data Source: National Accounts (2012)
(Thousands of dollars)

1. Production Account	P.1	Output	0	1.242.498
	P.11	Market Output	0	1.242.498
	P.12	Output for own final use	0	0
	P.13	Non-market output	0	0
	P.2	Intermediate consumption	249.295	0
	D.21	Taxes on products	0	0
	(-) D.31	Subsidies on products	0	0
B.1b	Value added, gross / Gross domestic product	993.203	0	

Data Source: Balance of Payments (2012)
(Thousands of dollars)

0. Imports and Exports of goods and services	P.6	Exports of goods and services	0	1.272.380
	P.61	Exports of goods(Not Tourism)	0	1.207.472
	P.62	Exports of services (Not Tourism)	0	64.908
	P.63	Domestic purchases by non-residents	0	0
	P.7	Imports of goods and services	158.359	0
	P.71	Imports of goods	32	0
	P.72	Imports of services	158.328	0
	P.73	Direct purchases abroad by residents	0	0
B.11	External balance of goods and services	1.114.020	0	

Production account/Imports and exports of goods and services:

- Total placement of production abroad → reflects strong specialization in merchanting of these companies
- Imports of goods and services → high portion of their intermediate consumption
- Most of their exported production is Value Added in this economy

4. The sequence of accounts for companies of merchandising

Data Source: National Accounts (2012)

(Thousands of dollars)

2.Generation of income account	B.1b	Value added, gross / Gross domestic product	0	993.203
	D.1	Compensation of employees	53.610	
	D.11	Wages and salaries	51.442	
	D.12	Employers' social contributions	2.168	
	D.2	Taxes on production and imports	28	
	D.29	Other taxes on production	28	
	(-) D.3	Subsidies	0	
	(-) D.39	Other subsidies on production	0	
	B.3b	Mixed income, gross	0	
	B.3b	Mixed income, gross	0	
	B.2b	Operating surplus, gross	939.565	

Generation of Income account

- Compensation of employees is 5% of the added value, while the remaining 95% is operating surplus, gross.

Allocation of primary account

- The totality of property income is of non-resident agents, especially distributed income and reinvested earnings on FDI, which reflect the fact that these companies are 100% of DI.

Data Source: National Accounts (2012)

(Thousands of dollars)

3.Allocation of primary income account	B.2b	Operating surplus, gross	0	939.565
	D.2	Taxes on production and imports		0
	D.21	Taxes on products		0
	D.29	Other taxes on production		0
	(-) D.3	Subsidies		0
	(-) D.31	Subsidies on products		0
	(-) D.39	Other subsidies on production		0
	D.4	Property income	1.104.678	176.269
	D.41	Interest	15.101	22.615
	D.42	Distributed income of corporations	230.367	18.168
	D.43	Reinvested earnings on foreign direct investment	859.209	135.485
	D.44	Investment income disbursements	0	0
	D.45	Rent	0	0
	B.5b	Balance of primary incomes, gross / National income, gross	11.156	0

Data Source: Balance of Payments (2012)

(Thousands of dollars)

3.Allocation of primary income account	D.2	Taxes on production and imports		0
	D.21	Taxes on products		0
	D.29	Other taxes on production		0
	(-) D.3	Subsidies		0
	(-) D.31	Subsidies on products		0
	(-) D.39	Other subsidies on production		0
	D.4	Property income	1.103.336	160.133
	D.41	Interest	13.738	6.490
	D.42	Distributed income of corporations	230.389	18.158
	D.43	Reinvested earnings on foreign direct investment	859.209	135.485
	D.44	Investment income disbursements	0	0
	D.45	Rent	0	0

4. The sequence of accounts for companies of merchenting

Data Source: National Accounts(2012)

(Thousands of dollars)

4.Secondary distribution of income account	B.5b	Balance of primary incomes, gross / National income, gross	0	11.156
	D.5	Current taxes on income, wealth, etc.	11.002	0
	D.51	Taxes on income	10.639	0
	D.59	Other current taxes	363	0
	D.6	Social Contribution and Benefits	0	0
	D.61	Net social contributions	0	0
	D.62	Social benefits other than social transfers in kind	0	0
	D.7	Other current transfers	154	0
	D.71	Net non-life insurance premiums	60	0
	D.72	Non-life insurance claims	0	0
	D.73	Current transfers within general government	0	0
	D.74	Current international cooperation	0	0
	D.75	Miscellaneous current transfers	94	0
	D.76	Transfer from BCU to the Government	0	0
B.6b	Disposable income, gross	0	0	

Secondary distribution of Income Account

- Transfers via income taxes, wealth taxes and other are minimal considering the property income generated by these companies.
- Most of them pay low or no taxes due to the existence of especial regimes and Free Trade Zones.

Capital Account

- Low increase of gross fixed capital formation: reflects the fact that these companies may not need great investment of fixed capital to operate.
- Significant changes in the inventories

Data Source: National Accounts (2012)

(Thousands of dollars)

8. Capital account	B.8B/B.	Saving, Gross	0	0
	12			
	P.5	Gross capital formation	114.157	
	P.51	Gross fixed capital formation	5.302	
	P.52	Changes in inventories	108.855	
	P.53	Acquisitions less disposals of valuables	0	
	NP	Acquisitions less disposals of non-produced assets	0	
	NP.1	Acquisitions less disposals of natural resources	0	
	NP.2	Acquisitions less disposals of contracts, leases and licences	0	
	NP.3	Purchases less sales of goodwill and marketing assets	0	
	D.9	Capital Transfers		0
	D.9r	Capital transfers, receivable		0
	(-) D.9p	Capital transfers, payable		0
	B.9	Net lending (+) / Net borrowing (-)	-114.157	0

4. The sequence of accounts for companies of merchenting

Data Source: National Accounts (2012)
(Thousands of dollars)

9. Financial Account	B.9	Net lending (+) / Net borrowing (-)		
				-114.157
	F.1	Monetary gold and SDRs		
	F.11	Monetary gold	0	
	F.12	SDRs	0	
	F.2	Currency and deposits	214.558	0
	F.21	Currency	9.673	0
	F.22	Transferable deposits	204.886	0
	F.29	Otros depósitos	0	0
	F.3	Debt securities	-27.848	0
	F.31	Debt securities, short- term	-27.848	0
	F.32	Debt securities, long-term	0	0
	F.39	Debt securities- no term detail	0	0
	F.4	Loans	0	-232.450
	F.41	Loans, short-term	0	-445.713
	F.42	Loans, long-term	0	202.830
	F.49	Loans, no term detail	0	10.433
	F.5	Equity and investment fund shares	135.992	859.209
	F.51	Equity	135.992	859.209
	F.52	Investment fund shares/units	0	0

Data Source: Balance of Payments (2012)
(Thousands of dollars)

9. Financial Account	F.1	Monetary gold and SDRs		
			0	
	F.11	Monetary gold	0	
	F.12	SDRs	0	
	F.2	Currency and deposits	189.934	0
	F.21	Currency	0	0
	F.22	Transferable deposits	189.934	0
	F.29	Otros depósitos	0	0
	F.3	Debt securities	-27.868	0
	F.31	Debt securities, short- term	-27.868	0
	F.32	Debt securities, long-term	0	0
	F.39	Debt securities- no term detail	0	0
	F.4	Loans	0	-288.517
	F.41	Loans, short-term	0	-432.474
	F.42	Loans, long-term	0	143.958
	F.49	Loans, no term detail	0	0
	F.5	Equity and investment fund shares	135.991	859.258
	F.51	Equity	135.991	859.258
	F.52	Investment fund shares/units	0	0

Financial Account

- Most of the financial flows are with non-resident agents
- Deposits and loans: mostly with non-residents
- Debt securities: 100% with non-residents

4. The sequence of accounts for companies of merchanting

Data Source: National Accounts (2012)

(Thousands of dollars)

9. Financial Account	F.6	Insurance, pension and standardized guarantee schemes	0	0
	F.61	Non-life insurance technical reserves	0	0
	F.62	Life insurance and annuity entitlements	0	0
	F.63	Pension entitlements	0	0
	F.64	Claim of pension fund on pension managers	0	0
	F.65	Entitlements to non-pension benefits	0	0
	F.66	Provisions for calls under standardized guarantees	0	0
	F.7	Financial derivatives and employee stock options	1.823	0
	F.71	Financial derivatives	1.823	0
	F.72	Employee stock options	0	0
	F.8	Other accounts receivable/payable	1.244.860	1.056.784
	F.81	Trade credits and advances	1.147.560	1.042.168
	F.89	Other accounts receivable/payable	97.300	14.615

Data Source: Balance of Payments (2012)

(Thousands of dollars)

9. Financial Account	F.6	Insurance, pension and standardized guarantee schemes	0	0
	F.61	Non-life insurance technical reserves	0	0
	F.62	Life insurance and annuity entitlements	0	0
	F.63	Pension entitlements	0	0
	F.64	Claim of pension fund on pension managers	0	0
	F.65	Entitlements to non-pension benefits	0	0
	F.66	Provisions for calls under standardized guarantees	0	0
	F.7	Financial derivatives and employee stock options	1.820	0
	F.71	Financial derivatives	1.820	0
	F.72	Employee stock options	0	0
	F.8	Other accounts receivable/payable	1.279.169	1.190.512
	F.81	Trade credits and advances	1.180.667	1.190.391
	F.89	Other accounts receivable/payable	98.502	121

Financial Account

- Trade Credits and advances: mostly with non-residents
- **Important** → transactions between companies of the same economic group → global value chains
- Also significant for these companies: the use of financial derivatives

5. Balance of Payments Publication



BCU

	2012.I	2012.II	2012.III	2012.IV
1. Cuenta Corriente	-259	-510	-519	-783
1.A. Bienes y Servicios	689	419	360	38
1.A.a Bienes	-200	267	417	-178
Crédito	2.921	3.478	3.652	3.004
Mercancías generales (1.A.a.1)	2.454	2.852	3.121	2.603
<i>De los cuales: Soc. principalmente dedicadas a la compraventa</i>	81	85	83	80
Exportaciones netas de bienes en compraventa (1.A.a.2)	467	626	531	401
<i>Bienes adquiridos en virtud de compraventa (crédito negativo)</i>	-8.346	-15.732	-10.891	-5.066
<i>Bienes vendidos en virtud de compraventa</i>	8.813	16.358	11.422	5.466
<i>De los cuales: Soc. principalmente dedicadas a la compraventa</i>	441	594	494	374
Débito	3.121	3.211	3.235	3.182
Mercancías generales (1.A.a.1)	3.121	3.211	3.235	3.182
<i>De los cuales: Soc. principalmente dedicadas a la compraventa</i>	84	93	87	81

In order to facilitate the interpretation of the information to analysts and other users, the Balance of Payments is presented, when possible, quarterly, specifying which part belongs to merchanting.

	2012.I	2012.II	2012.III	2012.IV
3. Cuenta Financiera (Préstamo neto (+) / endeudamiento neto (-))	245	-550	-92	-1.048
3.1 Inversión directa	-543	-635	-567	-430
Adquisición neta de activos financieros	862	1.535	942	530
Por Sector Institucional				
Sector Público	-11	-11	-19	-11
Sector Privado	874	1.545	961	540
<i>De los cuales: Sociedades principalmente dedicadas a la compraventa</i>	678	1.377	918	367
Por instrumento	0	0	0	0
Participaciones de Capital y en Fondos de Inversión (3.1.1)	28	26	20	30
Instrumentos de Deuda (3.1.2)	835	1.509	922	499
Pasivos netos incurridos	1.405	2.170	1.509	960
Por sector institucional				
Sector Público	0	0	0	0
Sector Privado	1.405	2.170	1.509	960
<i>De los cuales: Sociedades principalmente dedicadas a la compraventa</i>	675	1.404	925	351
Por instrumento				
Participaciones de Capital y en Fondos de Inversión (3.1.1)	894	1.080	806	790
Instrumentos de Deuda (3.1.2)	511	1.090	702	170

6. Final considerations

- A single instrument cannot allow on its own, a satisfactory approach of this kind of phenomenon, which is a product of the increasing globalization. Therefore, there is a need to use more than one instrument in a complementary way, such as the Balance of Payments and the sequence of National Accounts
- It is crucial to coordinate the different existing data sources and their treatment between the diverse Macroeconomic Systems (National Accounts System, Monetary System, Fiscal Accounts System, etc.), in order to assure coherence and consistency in the compiled information
- It turns out greatly useful to disaggregate part of the data with a focused criteria in order to analyze it. Processes related to globalization are extremely complex, especially in small and open economies. Thus, studying the phenomenon with a more specific view, can contribute to a clearer macroeconomic perspective later
- Using several statistic instruments, from more than one perspective, can help to provide better quality information to users



BANCO CENTRAL
DEL URUGUAY

Measuring global production: the case of Merchanting in Uruguay Central Bank of Uruguay

Special Session for EECCA and SEE countries
9 April 2019, Geneva, Switzerland

Kariné Hagopian
karineh@bcu.gub.uy

Nadia Silvosó
nsilvosó@bcu.gub.uy

Agustín Fernández
afernandez@bcu.gub.uy