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THE FUND'S PROGRAMME FOR A MONEY AND BANKING MANUAL

(Memorandum prepared by the International Monetary Fund)

I. A Summary of the Proposal

A. In proposing to produce an international money and banking manual the Fund has had in mind four considerations:

- (1) That the statistics of the money and banking system, owing to the large volume of its transactions and to the very specialized nature of its transactions, can contribute much to the materials available for the analysis of national problems of inflation and deflation and international problems of the balance of payments.
- (2) That this contribution, compared to those available in other fields, is facilitated by the fact that in most countries the number of monetary and banking institutions is relatively small and by the fact that their work necessarily involves keeping records and making reports to government.
- (3) That the money and banking statistics of many countries have not been fundamentally revised in some years with the result that there are important gaps in data needed to illuminate present-day national and international financial problems.
- (4) That consideration and discussion of the question on an international level should be worthwhile because monetary and banking systems throughout the world are, in many respects, similar and therefore comparable. However, there are many important differences in these systems, and interpretations of their operations would be facilitated by more adequate and comparable statistics.

B. The Fund's primary proposal is:

- (1) That the monetary authorities of all countries of the world together with others interested in the subject matter be asked to discuss the question of how money and banking statistics ought best to be organized for national and international use.
- (2) That countries be asked after the discussion of these problems to make suggestions for an international money and banking manual.
- (3) That as countries revise and develop their own money and banking statistics, they try to make them consistent with such general plan as the final manual might suggest. It is not proposed that the manual be a questionnaire. It is proposed that the production of the manual can serve as a medium for the discussion of the problem and the attainment of a large area of consensus, and that the availability of the finished manual can serve as a guide to countries in the revision and development of their own statistics.

C. For the purpose of setting this process in motion the Fund has prepared a draft of a money and banking manual. This draft is tentative and for discussion purposes only. The principles underlying the draft that seem to the Fund to be most important are these:

- (1) That, to the extent practicable, both combined and consolidated accounts of all the banking and money institutions of each country be constructed along standard lines.
- (2) That in addition to other classifications of their accounts the money and banking institutions of all countries endeavour to classify both their asset and liability accounts by economic sectors.
- (3) That the economic sectors used for the classification of accounts be selected in such a way as to segregate claims to and from those groups whose economic motivations are conspicuously different. One such classification that might be considered is: other money-creating institutions, foreigners, the central government, local governments, government agencies and businesses and individuals.

II. Comparison of the Fund's Draft with the Report of the  
Sub-Committee on Banking Statistics of the League of  
Nations Committee of Statistical Experts

In preparing the Draft Money and Banking Manual the Fund has drawn heavily on the report of the Sub-Committee on Banking Statistics of the League of Nations Committee of Statistical Experts. There are, however, a number of differences between the two proposals which it may be helpful to list:

A. The most important differences arise from a major difference between the League Committee and the Fund regarding the primary purposes that banking statistics should serve. The League Committee made its recommendations on the premise that banks are "institutions which use funds left on deposit with them to make loans" and on the principle that banking statistics should be designed primarily for the purpose of assessing the liquidity of the banking system. The Fund has made its draft manual on the premise that "it is a function of the monetary authorities and of the banks to create money for the money holding sectors of the economy" and on the principle that banking statistics are a part of monetary statistics and should be designed primarily as an aid to understanding the factors producing changes in the size and ownership of the money supply. The report of the League Committee is primarily intended to analyse the lending policies of financial institutions while the draft manual is primarily intended to analyse the money-creating activities of the monetary system.

(1) The two documents recommend different definitions of banks and hence different composition for banking statistics. On the one hand, the Fund's definition is broader. The League Committee recommended that the accounts of central banks should be excluded, except those of their accounts relating to direct business transactions with the public. However, since the Fund's object is to study the money-creating process, it proposes that central banks should be included, both because they create money and because changes in central bank assets and liabilities are important parts of the mechanism by which the operations of other money-creating institutions are controlled. Consistently, the draft manual recommends that if other government agencies (treasuries, exchange

stabilization funds etc.) perform important central banking functions, statistics on their operations should be included in monetary statistics. On the other hand, the Fund's definition is narrower. The League Committee recommended that in so far as possible all types of lending institutions be included, and that one of the principal breakdowns of the data be by type of institution. The draft manual recommends that only the accounts of those institutions whose liabilities are primarily currency or monetary deposits should be included, and that the breakdown should be as between the monetary authorities and other banks.

(2) The League Committee recommended the compilation of banking statistics by the combination of bank balance sheets, while the draft manual proposes that a series of consolidations be prepared. A combination measures the lending activities of banks, including loans to each other. A consolidation shows the relation between the banking system and the rest of the economy. The draft manual, however, provides schedules showing inter-bank borrowing and separate consolidations are recommended, one containing the central bank and, to measure the accounts between the central monetary authorities and the rest of the banking system, one excluding the central bank.

(3) The League Committee recommended that the classification of bank balance sheet items should be primarily based on their relative liquidity and hence placed much emphasis on distributions by maturity, marketability, pledgeability and collateral. While the draft manual also proposes a classification based on liquidity, it recommends that the main emphasis in banking statistics should be placed on a determination of the relation between the monetary system and the various important economic sectors of the economy. The aim is to determine the sectors of the economy that have accepted obligations to the monetary system in the process of money creation and the sectors that have acquired monetary assets or other claims on the banking system convertible into monetary assets. The League Committee in fact recommended that much sector-type information be collected but classifications on this basis took fourth and last priority in their list of classifications and they neither recommended that sector-type information be collected consistently for all items nor called for the summation of bank transactions by sectors.

(4) The differences arising from the major difference regarding the purposes of banking statistics is most evident in the treatment of deposits. The draft manual proposes that all deposits be classified by the extent to which they are in fact monetary, irrespective of their form. This means, for example, that in some countries some or all classes of savings deposits would be combined with demand deposits even though in most countries they would be classified separately. In the manual, attention is centred on the monetary or non-monetary nature of the various bank liabilities rather than on their contractual differences.

B. While the League Committee prepared a model schedule for bank reports it was of the opinion that "in view of the differences in the banking legislation, in the structure and in the character and traditions of banking in various countries, it would be idle to recommend the adoption by all governments of an internationally uniform schedule for banking statistics". As long as attention is directed primarily to the relative liquidity of specific assets and liabilities, and to the different types of banking institutions in a country, the non-comparability of the statistics of one country with those of another provides a problem. Assets of similar form vary in their liquidity in different countries according to the readiness and ability of the central bank to purchase them and the functions performed by credit institutions with outwardly similar form are in fact very different in different countries.

(1) In the draft manual these problems are of lesser importance. Banks are defined as those institutions whose liabilities are largely money and money is defined as those items that are in fact used as money. Legal and formal differences are therefore minimized. Information on the same sectors, moreover, is pertinent for all countries, for, regardless of the differences there may be between countries, one would always be interested in the foreign balance, the government deficit, and similar aggregates. The fact that the relative importance of sectors varies from time to time and from country to country constitutes the principal reason why sector information is valuable rather than a limitation on its value.

C. While the Fund recognizes that the schedule in the draft manual is long and ought perhaps to be shortened, it should also be recognized that the schedule prepared by the League Committee is equally long. Owing especially to the League's recommendation for separate statistics by types of banks, its proposed schedule may be very much longer. Moreover, the recommendation of the draft manual that would entail much additional work for the banks of most countries - that deposits be sectorized - is also made by the League Committee.

D. The League Committee's report includes recommendations for the compilation of statistics of bank debits and the volume of other transactions, on earnings and expenses and on a number of operating ratios. These subjects are not covered in the present draft manual but it is planned to include some recommendations on debits, earnings and expenses in later drafts.

### III. Comparison of the Fund's draft with the Experts' Report on a System of National Accounts

A. The draft manual and the report on national accounts prepared by the United Nations Committee of National Income Experts are both intended to be steps in the improvement of social accounts. It is therefore desirable to make national income and monetary statistics consistent. The most important concepts common to both the United Nations report and the draft manual relate to the basis on which the aggregates in both national income and monetary statistics should be segregated. Both documents suggest that these aggregates should be classified by economic sectors. But each proposes different sectors.

(1) If only national income accounts are considered, the monetary authorities and the banks are not especially important and there is no compelling reason to separate them from the other sectors. If, however, the development of additional forms of social accounting is considered, namely, money flows and wealth accounts, the monetary authorities and the banks immediately assume enormous importance because of their relative size in money flows and assets, because of the greater availability and reliability of information available from these institutions, and because the purposes for which the monetary authorities and the banks hold assets are so different from those of all other sectors. It is hoped that a general improvement in money and

banking statistics may ultimately result from the preparation of a money and banking manual. This would constitute a large step forward in the field of social accounting. If this occurs, it would be helpful if national income accounts were also available in a form permitting direct comparison between the two sets of data. Consistency would require the setting up of a monetary sector in national income accounts, made up partly at the expense of the business sector and partly at the expense of the government sector as these are presently defined in the United Nations report. It should include central banks, other money-creating banks, and those government accounts that are entirely monetary (treasury currency account, stabilization funds etc.)

(2) The second difference in sectors between the United Nations report and the draft manual also involves the definition of the government and business sectors. The draft manual calls for a sector for the central government (exclusive of those parts allocated to the monetary authorities) and for separate sectors for local governments and government agencies. The United Nations report combines local governments with the central government and government agencies with business. In the draft manual the division of accounts into sectors is based on the different motivations influencing the activities of the members of each sector. If this is accepted as the proper basis for determining the composition of appropriate economic sectors, good statistics are those that measure separately the accounts of all those groups that are differently motivated. On this reasoning it is clear that central governments are motivated differently from other parts of the economy. The central government is that part of the economy that has assumed, to one degree or another, responsibility for the maintenance of a satisfactory level of economic activity. It can, therefore, for example, be expected to increase its expenditures at a time when those motivated by considerations of profit or loss reduce their expenditures. This consideration either does not apply, or applies to only a limited degree to the decisions of local governments. Therefore, the addition of central

government and local government data would deprive statistics of much useful information. Similarly, government enterprises represent a group whose motivation would be expected to be more businesslike than that of the central government and more governmentlike than that of business. Hence, to add their accounts either to those of the government or to those of business would blur the differences in motivation that the sectors should make clear.

B. While these considerations increase the number of sectors proposed in the United Nations report, there may be no good solution to these problems other than to provide separate sectors for monetary institutions, local governments and government agencies in both national income and monetary accounts. This problem is under active study between the Fund and the United Nations Statistical Office.

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