Economy and finance

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EU-27 current account deficit fell to EUR 128 bn in 2009

First estimates of the EU-27 current account balance in 2009 put the deficit at EUR 128 billion, or 1.1 % of GDP, down from EUR 243 billion (1.9 % of GDP) in 2008. The main reason was the substantial fall in the deficit in the goods account, from EUR 205 billion to EUR 87 billion (1.6 % and 0.7 % of GDP respectively). The surplus in the services account decreased compared with 2008 from EUR 86 billion to EUR 65 billion. The deficit in the income account fell from EUR 67 billion to EUR 46 billion while current transfers remained stable. Switzerland and China were in 2009 respectively the EU's main net debtor and net creditor.

Table 1: Main items of the EU-27's current account and capital account (billion EUR)

	2007			2008			2009		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Current account	**2456.6**	**2583.7**	**-127.2**	**2436.0**	**2679.3**	**-243.3**	**2034.2**	**2161.7**	**-127.5**
Goods	**1252.8**	**1409.0**	**-156.2**	**1309.2**	**1514.2**	**-205.0**	**1104.4**	**1191.6**	**-87.2**
Services	**507.3**	**419.5**	**87.8**	**529.5**	**443.3**	**86.2**	**480.8**	**415.5**	**65.3**
Transportation	123.1	102.7	20.4	136.0	111.5	24.5	109.9	88.4	21.5
Travel	75.5	94.6	-19.2	74.1	95.1	-20.9	68.1	86.4	-18.3
Other services	305.6	215.2	90.4	316.4	232.6	83.8	302.4	229.6	72.8
Services not allocated	3.2	7.0	-3.8	3.0	4.2	-1.2	0.4	11.2	-10.7
Income	**653.5**	**655.7**	**-2.2**	**550.9**	**617.8**	**-66.9**	**407.1**	**452.9**	**-45.8**
Current transfers	**42.9**	**99.5**	**-56.6**	**46.3**	**103.9**	**-57.6**	**41.9**	**101.7**	**-59.9**
Capital account	**7.9**	**23.8**	**-15.9**	**7.6**	**16.0**	**-8.4**	**9.1**	**14.7**	**-5.6**

Source: Eurostat (bop_q_eu)

Current account deficit decreased by 0.8 percentage points as share of GDP

Preliminary results show that in 2009 the EU-27 recorded a current account deficit of EUR 128 billion: after peaking in 2008, it returned to values noted in 2007. Relative to GDP, it decreased to 1.1% in 2009 from 1.9% in 2008. This was mainly due to the substantial fall of the deficit in the goods account. The drop of the deficit in the income account was roughly compensated by the reduction of the surplus in the services account, while current transfers remained stable. Although in 2009 the total current account, in net terms, was close to 2007, in gross terms both credit and debit are well below the values recorded in the two previous years, as a consequence of the shrinkage of transactions in goods, services and income.

In the goods account, values for both imports and exports diminished compared to 2008. However, the fall in exports was 40% smaller than for imports, which resulted in the fall in the deficit from EUR 205.0 billion to EUR 87.2 billion (from 1.6% of GDP to 0.7% of GDP).

Similarly, the decrease in the deficit in the income account resulted from the fall on the credit side being lower than on the debit side. This caused a decrease in the deficit of EUR 21.1 billion, from EUR 66.9 billion to EUR 45.8 billion (from 0.5% to 0.4% of GDP).

The surplus in trade in services shrank from EUR 86.2 billion in 2008 to EUR 65.3 billion in 2009 as a result of

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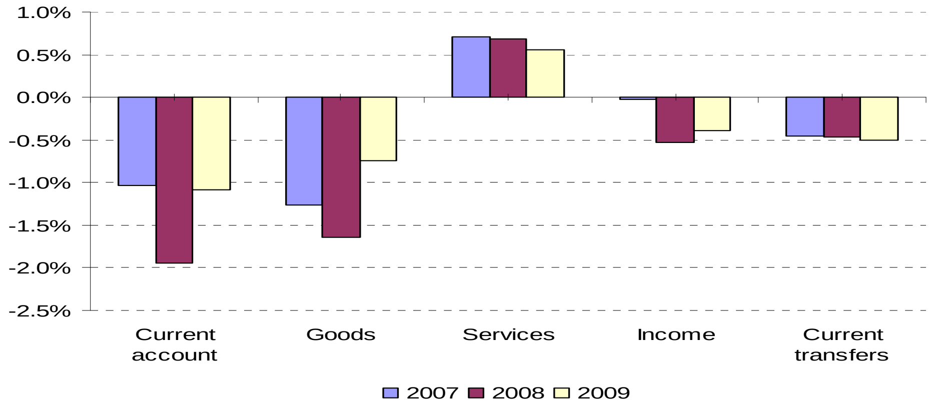
the fall in exports (from EUR 529.5 billion to EUR 480.8 billion, down by EUR 48.7 billion) being higher than the fall in imports (from EUR 443.3 billion to EUR 415.5 billion, down by EUR 27.8 billion). In relation to GDP, the surplus in services fell from 0.7% to 0.6% of GDP.

Compared with 2008, the decline of flows in 2009 was higher for goods (16% for credits and 21% for debits) than for services (9% for credits and 6% for debits). The biggest fall for services was recorded for transportation, which is closely related to trade in goods, (19% for credits and 21% for debits), while for other business services the decrease was only 4% for credits and 1% for debits. One explanation for the higher resilience of services to the crisis is that they are not storable and, therefore, inventories cannot play the role of a buffer, as in the case of goods. In addition, a significant part of internationally traded services are outsourced IT or back-office activities which must be carried out regardless of the financial situation. In some cases, the crisis could even trigger the outsourcing process. Finally, service providers are less exposed to the present credit crunch, due to more limited intermediate consumption and investments.

In 2009, the deficit in current transfers remained stable at 0.5% of GDP, with a small increase from EUR 57.6 billion to EUR 59.9 billion, the decrease in credits being slightly higher than the decrease in debits.

The capital account continued to move in 2009 towards balance, with a deficit of EUR 5.6 billion — 34% less than in 2008 and 65% less than in 2007.

Figure 1 — EU-27 current account balance with the rest of the world as share of GDP



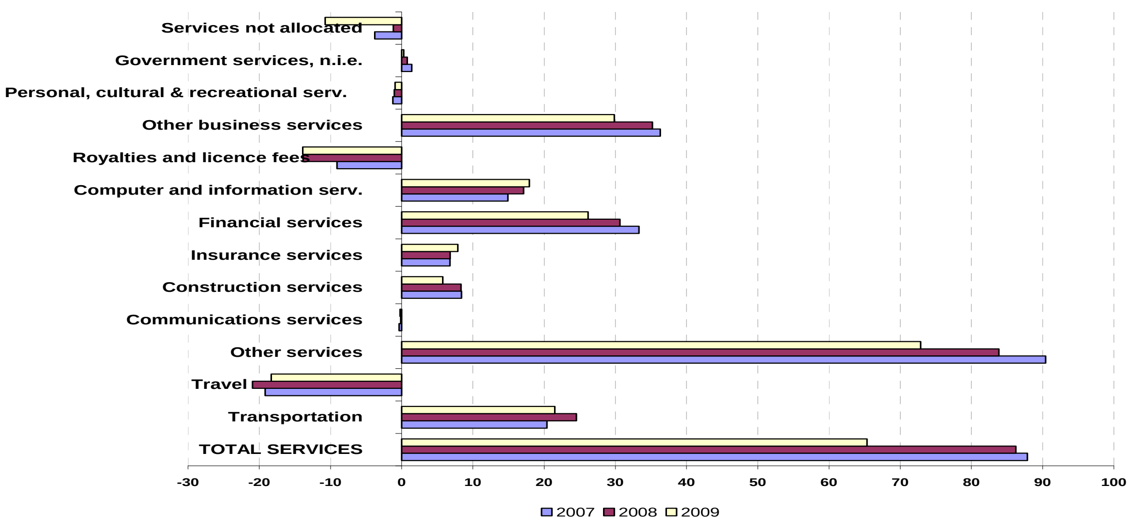
Source: Eurostat (bop_q_eu)

EU-27 surplus in services fell by 24%

In 2009 the surplus in trade in services of the EU-27 was 24% smaller than in 2008. The decrease in surplus was dispersed among different categories of services.
The largest decline in the surplus was recorded in other business services (which includes miscellaneous business, professional and technical services, operational leasing services, merchanting and other trade-related services), and in financial services, which are also the categories with the highest surpluses. Surpluses also diminished for transportation and construction services.

On the other hand, the surpluses in insurance services and computer and information services grew and the deficit in travel fell by 13% in comparison with 2008.

Figure 2 EU-27 trade in services balance with the rest of the world (billion EUR)



Source: Eurostat (bop_q_eu)

Highest current account surplus with Switzerland, deficit with China

The EU-27 current account surplus with the US continued to decrease in 2009, to EUR 30.6 billion, as the surplus in goods shrank and the surplus in services turned into a deficit, with transportation being the only main services category which still recorded a surplus. It was only partially offset by the decrease in the deficits in income and current transfers. Switzerland became the EU's main debtor with an EU current account surplus amounting to EUR 35 billion, which was, however, smaller than in 2008, as surpluses in services and income contracted; only the surplus in travel was higher than in 2008. Surpluses with Brazil and India remained stable, while the surplus with Canada decreased and that with Hong Kong increased, mainly due to developments in goods and income accounts. China remained the EU's main creditor, although the deficit decreased, due to substantial improvement in the goods account and a higher surplus in income. Deficits with Russia and Japan also diminished, driven by the reduction of the deficit in goods. For Japan surpluses in services and income dropped, while for Russia they were greater than in 2008.

Table 2: EU-27 current account balance with selected partners (billion EUR)

		United States	Switzerland	Japan	Canada	China	Russia	Brazil	India	Hong Kong
2007	**CURRENT ACCOUNT**	**98.3**	**24.1**	**-38.5**	**11.7**	**-140.0**	**-37.7**	**4.3**	**5.1**	**8.2**
	Goods	74.6	10.4	-32.8	3.1	-144.5	-47.8	-8.8	4.1	1.4
	Services	9.1	15.6	5.7	2.2	2.6	6.9	2.0	1.5	1.2
	Transportation	12.7	2.9	0.0	1.1	-0.1	-1.2	1.0	1.3	0.6
	Travel	0.9	4.2	1.3	0.1	-1.0	2.2	0.0	-1.1	0.1
	Other services	-2.9	11.0	4.5	1.0	3.7	6.1	1.0	1.2	0.6
	Income	13.5	-2.1	-11.4	7.6	4.5	3.6	12.4	1.4	5.9
	Current transfers	1.1	0.2	0.0	-1.3	-2.7	-0.4	-1.4	-1.8	-0.3
2008	**CURRENT ACCOUNT**	**53.7**	**44.1**	**-39.3**	**10.9**	**-142.2**	**-52.3**	**7.5**	**3.1**	**3.2**
	Goods	66.3	11.5	-30.2	2.2	-148.9	-64.9	-6.3	3.5	1.5
	Services	2.2	22.3	4.8	2.2	5.1	7.4	3.2	0.6	1.0
	Transportation	12.8	5.2	-0.4	1.1	0.6	-1.3	1.0	1.0	0.6
	Travel	-2.0	3.6	1.1	0.2	-0.2	2.8	0.5	-1.0	0.0
	Other services	-6.9	13.5	4.1	0.9	4.7	6.2	1.6	0.6	0.4
	Income	-13.0	9.9	-13.6	7.7	4.1	5.4	11.9	0.9	0.9
	Current transfers	-1.7	0.4	-0.3	-1.3	-2.6	-0.2	-1.3	-1.9	-0.3
2009	**CURRENT ACCOUNT**	**30.6**	**35.0**	**-30.1**	**7.8**	**-113.7**	**-32.4**	**7.8**	**4.0**	**8.7**
	Goods	48.4	11.1	-18.5	5.3	-121.3	-46.4	-2.5	2.3	3.5
	Services	-7.6	16.1	3.8	2.5	5.0	7.6	2.4	1.3	1.0
	Transportation	9.1	4.1	0.5	0.9	-0.2	-0.9	0.8	0.8	0.7
	Travel	-1.5	4.1	1.0	0.7	0.2	2.5	-0.1	-0.5	0.0
	Other services	-12.7	12.8	2.3	0.9	5.0	6.0	1.7	1.0	0.3
	Income	-9.3	6.9	-15.2	1.0	5.5	6.5	9.0	2.1	4.5
	Current transfers	-0.8	1.0	-0.1	-1.0	-2.9	-0.2	-1.1	-1.8	-0.2

Source: Eurostat (bop_q_eu)

Drop in the EU direct investment abroad

Table 3: Main items of the financial account of the EU (billion EUR)

	2007	2008	2009
DIRECT INVESTMENT	-107.3	-177.9	-41.6
- direct investment abroad	-528.8	-370.5	-263.3
- direct investment in the EU	421.5	192.5	221.7
PORTFOLIO INVESTMENT	352.3	806.3	436.3
- portfolio investment assets	-491.8	-103.6	-190.5
- portfolio investment liabilities	844.1	909.9	626.8
OTHER INVESTMENT	53.8	-609.2	-204.8
- other investment assets	-1237.8	605.8	387.4
- other investment liabilities	1291.6	-1215.0	-592.2
FINANCIAL DERIVATIVES	-94.7	-90.3	48.3

Source: Eurostat (bop_q_eu)

Data on investment still show in 2009 effects of the financial crisis. Net direct investment was approaching the balance in 2009 and, compared with 2008, direct investment abroad fell by 29% to EUR 263.3 billion, while direct investment in the EU was up by 15% and stood at EUR 221.7 billion.

Portfolio investment data still recorded net capital inflows to the EU, although these were 46% lower in 2009 than in 2008. EU residents purchased external securities worth EUR 190.5 billion, 84% more than in 2008, whereas acquisitions by non-residents of securities issued in the EU dropped by 30% to EUR 626.8 billion.

On the other hand, figures on other investment, which includes bank deposits, trade credit and loans, continued in 2009 the trend from 2008 and showed a net outflow of money from the EU, albeit 66% less than in the previous year. Other investment assets (i.e. deposits held by EU residents abroad and loans granted to non-residents) reduced further, recording an inflow of EUR 387.4 billion. Other investment liabilities shrank, too, registering an outflow of EUR 592.2 billion.

METHODOLOGICAL NOTES

The results presented here are preliminary calculations based on the sum of quarterly data reported by Member States and are subject to revisions. The figures shown in the tables may not exactly add up due to rounding.

Detailed trade in services and direct investments results for 2009 will be issued by the end of December 2010. The 2009 results for the main items of services and direct investments, as presented here, may differ from those previously released by Eurostat, due to revisions in the underlying quarterly data.

The balance of payments records all economic transactions between residents of a country or economic area and non-residents in a given period. As part of the balance of payments, the current account records real resources and is subdivided into four basic components: goods, services, income and current transfers. The capital account covers all transactions that involve the receipt or payment of capital transfers linked to the acquisition or disposal of fixed assets or the acquisition or disposal of non-produced, non-financial assets. The financial account records transactions that involve financial assets and liabilities, which are further subdivided into direct investment, portfolio, other investments, financial derivatives and reserve assets (for which the EU aggregate is not compiled, as the European Union is not a monetary union).

Data on the financial account are presented following the balance of payments sign convention: increases in liabilities (and in direct investment in the EU) are shown with a positive sign, as are decreases in assets (and in direct investment abroad), while decreases in liabilities (and in direct investment in the EU) and increases in assets (and in direct investment abroad) are shown with a negative sign.

The methodological framework used is that of the fifth edition of the Balance of Payments Manual, published by the International Monetary Fund.

Further information

Eurostat Website: http://ec.europa.eu/eurostat
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http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database
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