

Methodological note

GUIDANCE ON THE COMPILATION OF BALANCE OF PAYMENTS STATISTICS IN THE CONTEXT OF THE COVID-19 CRISIS

EUROSTAT, DIRECTORATE C

UNIT C5 – INTEGRATED GLOBAL ACCOUNTS AND BALANCE OF PAYMENTS

EUROPEAN CENTRAL BANK, DIRECTORATE GENERAL STATISTICS

DIVISION – EXTERNAL STATISTICS AND SECTOR ACCOUNTS

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BACKGROUND

The COVID-19 pandemic has impacted the production of many key statistics, including balance of payments (BoP). Eurostat and the European Central Bank (ECB), together with the statistical compilers in national statistical institutes (NSIs) and national central banks (NCBs), have been working together to identify and address the main COVID-19 specific challenges encountered by compilers.

At the beginning of April 2020, Eurostat and the ECB sent out a survey to compilers of monthly and quarterly BoP data with a twofold aim: firstly, to identify difficulties faced in collecting data from reporters, and secondly to assess the soundness of the existing estimation methods to capture the dramatic change of the economic situation.

As a follow-up to the survey, Eurostat and the ECB organised a virtual meeting with national compilers (the members of the Balance of Payments Working Group and Working Group External Statistics) to present the results and discuss how to address the challenges. The main issues identified in the survey included the suspension of border surveys, lower response rates from direct reporters, delays in reporting, lower quality and delays in getting access to administrative data (e.g. VAT declarations) and annual financial statements. The need for increased collaboration and partnering between compilers of BoP was acknowledged.

Consistency between national accounts and balance of payments remains an important objective. This should also result in consistent metadata and use of flags and footnotes for identical aggregates.

This note outlines the identified challenges affecting the compilation of BoP and gives guidance on how these challenges can, or have already been, addressed by compilers.

CURRENT ACCOUNT

Trade in goods

The main issues identified in respect to the goods component of the current account were higher unit non-response rates for “Intrastat” (intra-EU trade) and possible delays in additional data to bridge from international trade in goods statistics to BoP concepts. Compilers may address it by adjusting modelling techniques, using more estimation models and by cooperating closely with forecasting and economic research institutes. In particular, models using value added tax (VAT) data and short-term statistics are mentioned.

The most important source for the compilation of exports and imports of goods according to the standards set by the International Monetary Fund’s Balance of Payments Manual, 6th edition (BPM6) is International Trade in Goods Statistics (ITGS), which in the European Union consist of “Intrastat” and “Extrastat”. According to a recent consultation of ITGS compilers, the overall quality of Extrastat (customs information) has not been particularly affected by the COVID-19 crisis, although some delays in data provision may be expected.

Intrastat data (survey based) quality also remained fit for purpose as ITGS compilers have taken the necessary measures to mitigate the challenges brought by COVID-19. While most Member States (MS) have not witnessed a relevant increase in the overall non-response rate, some of them believe that revisions may be slightly higher than usual.

Due to methodological differences between ITGS and BoP, several adjustments to ITGS are needed in order to obtain exports and imports of goods that are in line with the recording specifications of the BPM6.

The most common adjustments to ITGS that could be affected by the COVID-19 crisis are:

- Exports and imports related to merchanting, which are typically surveyed separately. Similar to “Intrastat”, the possibility of higher non-response rates may affect data quality. More communication with respondents and additional imputations are needed to reduce the possible negative effect on quality;
- Other exports and imports of goods without physical cross-border movements, but change of economic ownership. Data for these complex transactions are also not captured by ITGS and have to be estimated (typically surveyed);
- Recent VAT declarations may have been unavailable or delayed due to lockdown measures. Data imputations for missing VAT declarations according to the corresponding developments at the NACE 2-digit level have been an option.

Trade in services

The main issues identified in the trade in services account relate to the estimation of the travel and transport categories. National (border) surveys have to be completed with administrative data sources. For credits, some compilers receive data from mobile operators on the number of foreign travellers. Some compilers also base their estimates on airport passenger movements or on credit card data. For debits, mirror data from the workshop on travel could be partly used, as well as credit card data/mobile phones data. Some border surveys were replaced with telephone interviews.

Travel and transport were the most affected service categories, not only economically, but also in expected challenges to data compilation, as these concepts are derived from surveys to a large number of small and medium sized enterprises, as well as to households (e.g. border surveys).

Changes in the compilation methods for categories like financial services, charges for the use of intellectual property and other business services, where larger enterprises are more active, are less likely to be needed.

National compilers base most of their estimates for trade in services on surveys and their conduct during the COVID-19 pandemic is increasingly challenging. To compensate, a number of possible alternative data sources and methods were identified:

- Mobile positioning data received from mobile phone operators;
- Credit card data;
- Surveys conducted via telephone, instead of in-person;
- Increased use of administrative data; e.g. using information from the Value Added Tax Exchange Information System (VIES) and The Value Added Tax Mini One Stop Shop (MOSS);
- Administrative data on the number of travellers remained available in most, but not all countries. When such data was missing, estimates based on credit card data could be used instead;
- In case of lack of data on average travellers' expenditure, estimates based on last year's expenses adjusted to the current situation were used;

For the compilation of travel services, a virtual workshop has been established where compilers meet on a regular basis to discuss issues and challenges related to the compilation of travel and where they have set up an exchange of bilateral data.

Trade in travel services for Q1 of 2020 and especially for Q2 of 2020 is expected to be much lower than in previous years (even close to zero in April and May); services other than travel should also decrease but to a smaller extent. On the other hand, values for computer or audio-visual services are likely to increase. Compilation of exhaustive figures for computer services, especially for debits, is challenging even in normal times. In the current circumstances, due to possibly missing or late data from enterprise surveys, additional imputations may be necessary and use of mirror credit figures should be considered. Credit data, due to much bigger concentration of exporters, should be easier to collect and be of better quality.

Data for most categories of services are usually estimated through business surveys and administrative sources. The response rate of enterprise surveys is likely to be lower than under normal circumstances. Large corporations tend to be less affected than some medium and particularly small size enterprises, where an increased need of grossing-up, potentially using (when available) the international transactions reporting system's (ITRS) data, is needed. Reporting by banks and other financial institutions is the least impacted. Firms in all sectors might have taken longer to submit the necessary data. Such late response would mean additional need for imputation and eventually imply more revisions than usual.

Due to the extraordinary situation and the predicted severe drop in economic activity (due to travel restrictions and the lockdown) compared with previous years, adjustments in estimation models relying on seasonality and temporal disaggregation models will be necessary.

For insurance services, which are often compiled using estimation models, the models will need to be updated due to the expected increase in claims caused by the pandemic. Additionally, assistance of experts in economic research and forecast, information tools and resources, as well as information from media, need to be taken into consideration. National compilers are advised to work closely with respondents to identify the preferred methods for reporting.

Generally, more direct contacts with respondents and especially with the main companies may be needed to obtain information on their operations during the pandemic. Estimates of key

indicators of their activity would be acceptable as reporters may not be able to provide precise figures. As regards financial services, there might be missing data, especially data from financial institutions other than banks. To improve estimates for explicitly charged and other financial services, compilers may contact their national financial markets authorities about available information.

Primary income

The main issues identified for primary income were the calculation of compensation of employees and foreign direct investment income. For the calculation of compensation of employees, countries may use adjusted model techniques. The estimation of foreign direct investment income (particularly reinvested earnings) is more challenging than usual, particularly to account for the expected drop in the profitability and activity of most economic sectors, the increases in write-offs and write-downs, negative revaluations and last minute reversals in dividend payments.

Compensation of employees comprises salaries of daily commuters, seasonal workers and staff of international organizations. Compensation of seasonal workers that work just for a few months in areas like agriculture and hospitality services could be heavily affected by the COVID-19 restrictions and the calculation of cross border compensation may therefore be challenging.

The national social insurance agency should be consulted by national statistical compilers; recent labour market information can be used to compile first results for compensation of employees and the corresponding taxes on income and social contributions.

During the lockdown, a number of employees were laid off. This has a direct impact on the data for compensation of employees and personal transfers.

Many countries have repatriated their citizens from abroad. National compilers may cross-check the number of repatriates, as available from media and/or governmental reports to adjust the existing models. BoP statisticians and national accountants can work together concerning changes related to the size of the seasonal workforce in agriculture.

Foreign direct investment (FDI) income is generally estimated, as actual data is collected with delay and at low frequency (e.g. annually). Due to the COVID-19 related developments, the estimation becomes more uncertain than usual. Compilers expect general drops in the accounting profits and activity for most sectors, increases in write-offs, write-downs and negative revaluations, limited (or even last minute reversals of) dividends distribution and hence drops in net operating surpluses.

FDI income estimations may be fine-tuned by:

- Using more nowcasting models with different scenarios depending on the sector of the company;
- Checking carefully the data reported (imputed) by the main (usual) contributors: large enterprises and key industries;
- Calibrating the estimation models to appropriately account for complete inactivity or substantial drop in economic activity;
- Bilaterally sharing as much as possible micro-data on the evolution of FDI income.

Regarding the compilation of other investment income, no major difficulties are expected. National compilers rely on timely microdata sets for the compilation of portfolio investment income, which have not been affected by COVID-19. The estimation of other investment income, which relies on financial statements of the financial sector, is also not substantively affected.

Secondary Income

Secondary income consists of heterogeneous transactions and therefore different data sources as well as various estimation methods are needed to obtain the corresponding values. For some transactions like miscellaneous private current transfers, the data availability and quality may be negatively affected by the COVID-19 crisis and additional challenges for compiling first results for taxes on income and wealth, social contributions, social benefits and remittances may arise due to expected breaks in time series, while for others COVID-19 should not have any impact at all.

Taxes on income and wealth as well as social contributions are related to compensation of employees and include mainly paid income taxes and social contributions by non-resident cross border and seasonal workers. Due to COVID-19, a significant decrease in the number of cross border and seasonal workers as a result of temporary border closings can be expected and harmonised recording according to compensation of employees should be considered¹.

Social benefits include cross border payments for unemployment compensation and pension entitlements. Data are usually provided by the national social insurance agency with a certain time lag. The estimation of preliminary figures may struggle to capture the expected rise in unemployment and entitlements regarding unemployment benefits for non-resident cross border and seasonal workers caused by COVID-19¹.

Data quality for EU based own resources concerning value added tax and gross national income and also regarding current international cooperation is usually provided by the Ministry of Finance, or another public institution, and should not be affected by the current COVID-19 crisis.

Data for net non-life insurance premiums and claims are obtained from Regulatory Insurance Corporations data or from separate surveys among financial enterprises (in the context of ITSS)².

Figures for miscellaneous private current transfers, excluding remittances are mainly related to transactions affecting non-profit institutions. If data for non-profit institutions are based on a survey, unit non-response and delays of data transmission may have been caused by COVID-19 and corresponding data imputations may be needed to fill the data gaps.

Personal transfers (remittances) can be derived either by estimates based on compensation of resident migrant workers or obtained via information from money transfer operators. If information from money transfer operators is taken, it may be necessary to introduce imputations due to data delivery gaps as a result of COVID-19. If the values are based on compensation figures of resident migrant workers, possible higher unemployment figures and a corresponding lower income should be taken into account when estimating recent values regarding remittances¹.

FINANCIAL ACCOUNT

Financial transactions and positions are collected from different sources. Large transactions have occurred and therefore measurement problems can arise. Financial sectors are generally well and timely covered; reporting problems may arise from non-financial corporations. Foreign direct investment activity is likely to be substantially reduced and will be most challenging to compile. Portfolio and other investment are collected mostly from financial corporations and the volume of transactions as well as data quality should be less impacted by COVID-19 crisis.

¹ More information about the compilation for recent figures can be found under primary income, compensation of employees

² See also under services, insurance services

Direct investment is generally compiled based on survey data and direct reporting. Large companies should not have experienced reporting problems, however those that are temporarily closed or with lack of personnel may have faced some delays in reporting obligations. This could have been particularly relevant for non-financial corporations. Regarding the activity in foreign direct investment, it is expected to be reduced, as new investments, mergers and acquisitions (M&A) and greenfield may be delayed. However, intercompany loans and capital injections from parents to support affiliates in difficulties may have increased.

The mechanisms in place to deal with non-response should be reinforced:

- Compensate missing reports by taking into account last known stocks, taking on board the large revaluation effects of the period;
- More advanced imputation and grossing up techniques for large non-responses in case of need;
- Active exchange of metadata and micro data with counterpart compilers.

Portfolio investment is compiled mostly from security by security data reported by the holder and issuer sectors that is complemented by data from custodians and other financial intermediaries. In principle, this data reporting is robust enough and not affected by the close down of the businesses; however pension funds and insurance corporations have been allowed to report with some delay.

For portfolio investment the following aspects should be taken into account:

- Large transactions are expected in portfolio investment, which need to be carefully monitored to ensure that sharp portfolio rebalancing actions are correctly and symmetrically recorded across the European Union;
- Cooperation with the area in charge of securities issues statistics is fundamental to get coherent and reliable estimations.

Large financial derivative transactions are also expected considering the volatility of the financial markets. In most EU countries, financial derivatives activity is very concentrated in a few agents, therefore compilers are recommended to contact main reporters directly to avoid missing data and late reporting.

Transactions in other investment are also expected to be large. They will partly mirror the developments in portfolio investment (preference for liquidity) and hence need to be monitored. In addition, there may be a surge in transitory accounts to bridge the temporal gap between the current account recording and settlement/payment dates. For this purpose, the following aspects should be taken into account:

- More in-depth use of secondary (cross-checking) data sources: international transaction reporting system (ITRS), supervisory data, MFIs Balance Sheet Items (BSI) of other euro area countries as mirror data for resident sectors;
- Consistency between current and financial account entries may indicate payable and receivable accounts missing;
- For trade credits estimations based on historical behaviours, i.e. ratios to exports and imports of goods and services should be applied, if no reliable genuine data is available.