

EU25 current account deficit widened to € 94.2 bn in 2005

The increased surplus recorded in the services balance could not compensate for the growing deficit in the goods balance

Statistics in focus

ECONOMY AND FINANCE

14/2006

Balance of payments

Author

Franca FAES-CANNITO

Contents

€ 56.6 bn rise in the EU25 goods¹ deficit 1

Increase of the EU25 services surplus 2

EU25 income balance turned negative..... 3

Slowly increasing current transfers deficit..... 3

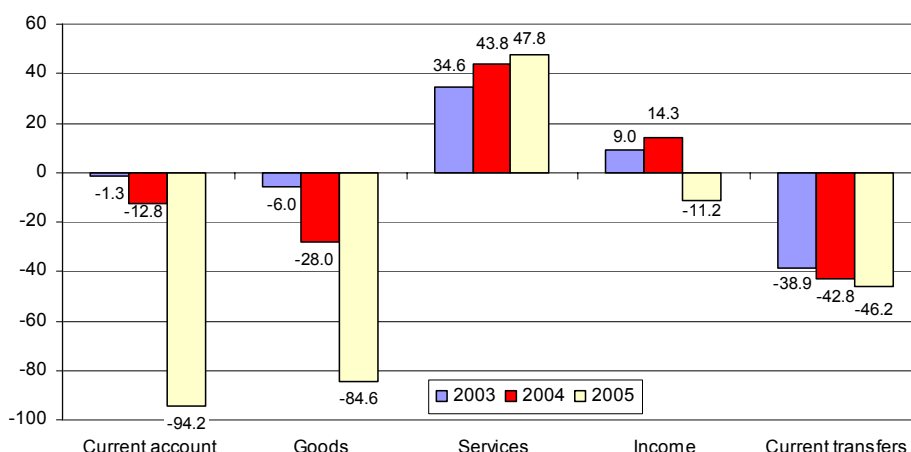
Euro-zone³ surplus in services continued growing in 2005..... 3

EU25 current account balance recorded surpluses with Canada, Switzerland and the USA and a deficit with Japan... 4



Manuscript completed on: 14.07.2006
Data extracted on: 15.05.2006
ISSN 1024-4298
Catalogue number: KS-NJ-06-014-EN-N
© European Communities, 2006

Graph 1: EU25 current account balance with the rest of the World (bn €)



Source: Eurostat

€ 56.6 bn rise in the EU25 goods¹ deficit

Preliminary 2005 results reveal an increase in the EU25 current account deficit which is mainly due to a sharp rise in the goods deficit (€ -84.6 bn in 2005 compared to € -28.0 bn in 2004). The deterioration in the EU25 goods balance is due to higher growth in imports (+15.4%) than in exports (+10.0%), as shown in Table 1.

¹ In trade in goods, according to the Balance of Payments concept, both exports and imports are valued free on board (f.o.b.) while in Foreign Trade Statistics imports are valued at cost insurance freight (c.i.f.). This explains, together with other methodological differences, why different values are observed in these two statistical domains, although both show similar trends.

Table 1: Main items of the EU25 current account (bn €)

ITEMS	Credit			Debit			Net		
	2004	2005	Change in %	2004	2005	Change in %	2004	2005	Diff.
Current account	1669.9	1878.6	12.5	1682.7	1972.8	17.2	-12.8	-94.2	-81.4
Goods	953.3	1048.3	10.0	981.3	1132.9	15.4	-28.0	-84.6	-56.6
Services	367.2	396.9	8.1	323.5	349.1	7.9	43.8	47.8	4.0
Transportation	92.6	100.9	9.0	78.4	84.6	7.9	14.2	16.3	2.1
Travel	66.9	71.3	6.6	80.7	86.5	7.2	-13.7	-15.1	-1.4
Other services	204.8	221.6	8.2	161.3	174.9	8.4	43.5	46.7	3.2
Services not allocated	2.9	3.0	3.4	3.1	3.2	3.2	-0.2	-0.2	0.0
Income	315.0	397.1	26.1	300.7	408.2	35.7	14.3	-11.2	-25.5
Current transfers	34.4	36.4	5.8	77.2	82.6	7.0	-42.8	-46.2	-3.4

Source: Eurostat

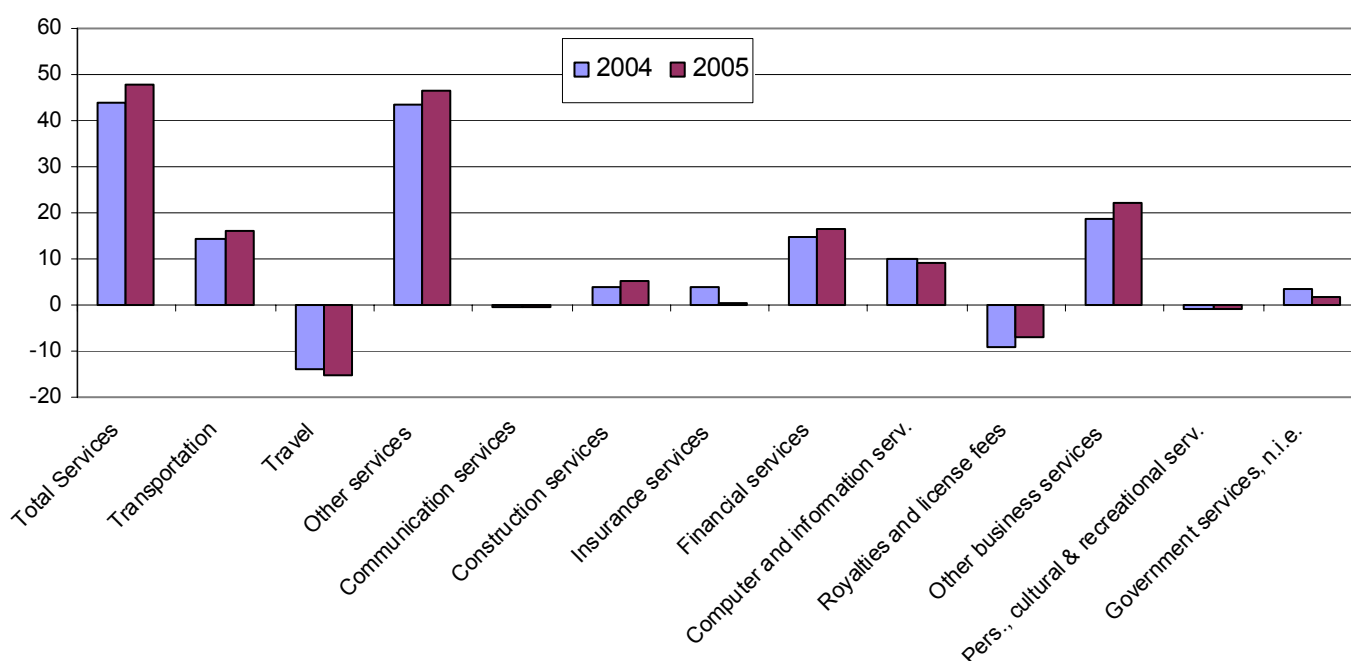
Figures may not add up due to rounding

Increase of the EU25 services surplus

EU25 exports and imports of services were higher in 2005 than in 2004, by 8.1% and 7.9% respectively, as shown in Table 1. The improvement of € 4.0 bn on the balance of services registered from 2004 to 2005 is the result of an increasing surplus in transportation (+14.8%) and other services (+7.4%), while the travel deficit widened from € 13.7 bn in 2004 to € 15.1 bn in 2005. The improvement of other services² is due to

increases in construction services, financial services and other business services balances (40.5%, 13.0% and 19.4% respectively), as shown in Graph 2. This trend has been partly offset by the deterioration in insurance services, computer and information services, and government services balances (-92.0%, -7.1% and -54.3% respectively).

Graph 2: EU25 services balances with the rest of the World (bn €)



Source: Eurostat

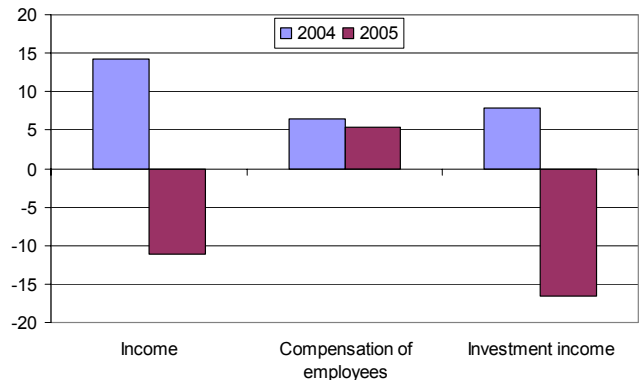
² The item "Other services" covers communication services, construction services, insurance services, financial services, computer and information services, royalties and license fees, other business services, personal, cultural and recreational services, and government services, n.i.e.

EU25 income balance turned negative

The EU25 *income* balance turned from a surplus (€ 14.3 bn) in 2004 to a deficit in 2005 (€ -11.2 bn). This is mainly due to the large net outflows of € 16.6 bn in the item *investment income* in 2005, compared to € 7.8 bn worth of net inflows in 2004. The positive net inflows for *compensation of employees* slightly decreased from € 5.8 bn to € 5.4 bn between 2004 and 2005.

The EU25 *income* deficit also largely resulted from deficits with Switzerland and the United States as shown in page 5 graph 9.

Graph 3: EU25 *income* balances with the rest of the World (bn €)



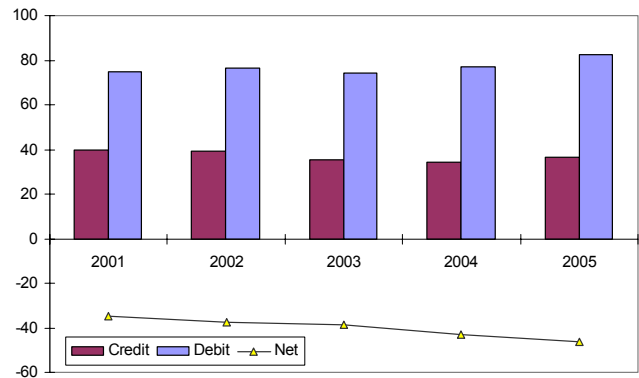
Source: Eurostat

Slowly increasing current transfers deficit

The EU25 *current transfers* deficit slightly increased to € 46.2 bn in 2005 from € 42.8 bn in 2004, continuing the negative trend of previous years. The main reason behind this higher deficit was the 7% increase of debit *current transfers* (€ 5.4 bn), only in part counterbalanced by a 5.8% rise in credit transactions (€ 2 bn).

The latter deficit is structural by definition because the EU, as a member of the group of most-developed countries, is a donor of funds for less-developed countries, e.g. the transfers made to the countries struck by the Tsunami.

Graph 4: EU25 *Current transfers* with the rest of the World (bn €)



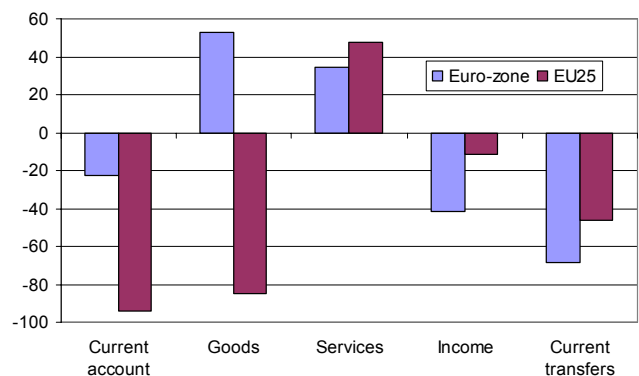
Source: Eurostat

Euro-zone³ surplus in services continued growing in 2005

Although the *current account* deficit in the Euro-zone is much smaller than in the EU25 (€ -22.6 bn compared to € -94.2 bn), the general trends are fairly similar.

The deterioration in the Euro-zone *current account* balance is mainly due to a sharp fall in the trade surplus in *goods* (€ -52.3 bn) and a further rise in the *income* and *current transfers* deficit (€ -13.5 bn and € -11.9 bn respectively). Also in line with the EU25 results, the Euro-zone *services* surplus further increased between 2004 and 2005. The improvement is mostly explained by the increase of € 6.3 bn in *other services* and *transportation* balances (€ 0.7 bn) but partially offset by the decrease of € 1.7 bn in the *travel* surplus.

Graph 5: EU *Current* balances with the rest of the World in 2005 (bn €)



Source: Eurostat

3 The Euro-zone includes Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland and Greece.

The increase in *other services* surplus was mostly due to an increase of € 5.7 bn in *other business services*⁴ balance that reversed from a deficit of € 0.3 bn in 2004 to a surplus of € 5.4 bn in 2005.

Table 2: Main items of the Euro-zone current account (bn €)

ITEMS	Credit			Debit			Net		
	2004	2005	Change in %	2004	2005	Change in %	2004	2005	Diff.
Current account	1843	2018.1	9.5	1793.2	2040.7	13.8	49.9	-22.6	-72.5
Goods	1128.2	1218.6	8.0	1022.9	1165.6	14.0	105.3	53	-52.3
Services	362.1	395.5	9.2	333.1	361.1	8.4	29	34.3	5.3
Transportation	83.1	91.1	9.6	74.4	81.8	9.9	8.7	9.4	0.7
Travel	86.6	90.8	4.8	74.9	80.7	7.7	11.7	10	-1.7
Other services	187.9	208.8	11.1	178.8	193.5	8.2	9	15.3	6.3
Services not allocated	4.5	4.7	4.4	4.9	5.1	4.1	-0.5	-0.4	0.1
Income	270.9	320.7	18.4	298.9	362.2	21.2	-28	-41.5	-13.5
Current transfers	81.9	83.4	1.8	138.3	151.7	9.7	-56.4	-68.3	-11.9

Source: Eurostat and European Central Bank (ECB Press Release April 2006)

Figures may not add up due to rounding

EU25 current account balance recorded surpluses with Canada, Switzerland and the USA and a deficit with Japan

According to Table 3, the EU25 *current account* for 2005 showed a surplus with the USA (€ +90.5 bn), Canada (€ +10.1 bn) and Switzerland (€ +8.6 bn) and a deficit with Japan (€ -22.9 bn). These results are similar to 2004, except for Switzerland.

The EU25 *current account* surplus with Switzerland decreased between 2004 and 2005, going down from € 13.1 bn to € 8.6 bn. The main factor behind this result is the higher *income* deficit (from € -10.4 bn in 2004 to € -15.1 bn in 2005). EU25 *income* credits from Switzerland grew by 8.3 % while debits recorded a growth of 12.4 %.

The EU25 *current account* surplus with Canada recorded a slight improvement moving from € 9.5 bn in 2004 to € 10.1 bn in 2005. This result is mainly due to a

8.5% increase in *services* credits compared to a 5.2% increase in *services* debits.

The EU25 *current account* recorded a slightly lower surplus with the USA moving from € 91.1 bn in 2004 to € 90.5 bn in 2005. Reasons behind this change are the decrease of *services* surplus (€ 3.2 bn) and, mostly, the higher deficit observed in the *income* balance (€ 8.5 bn). These results have not been entirely compensated by the 13% increase in the *goods* balance.

The slight contraction from € 23.4 bn in 2004 to € 22.9 bn in 2005 of the EU25 *current account* deficit with Japan can be explained by a slight increase in net *current transfers*, from a deficit of € 0.1 bn in 2004 to a surplus of € 0.5 bn in 2005.

Table 3: EU current account balances with Switzerland, Canada, the USA, Japan and the rest of the World⁵ (bn €)

ITEMS	Switzerland			Canada			USA			Japan			Rest of the World		
	2004	2005	Diff.	2004	2005	Diff.	2004	2005	Diff.	2004	2005	Diff.	2004	2005	Diff.
Current account	13.1	8.6	-4.5	9.5	10.1	0.6	91.1	90.5	-0.6	-23.4	-22.9	0.5	-103.1	-180.5	-77.4
Goods	11.7	10.3	-1.4	5.8	6.8	1	81.5	92.1	10.6	-29.2	-29.2	0	-97.8	-164.6	-66.8
Services	10.9	12.6	1.7	0.8	0.8	0	12.2	9	-3.2	7.8	7.8	0	12.1	17.6	5.5
Transportation	1.3	1.2	-0.1	0.6	0.8	0.2	9.2	11.2	2	1.1	0.9	-0.2	2	2.2	0.2
Travel	4.5	4.5	0	-0.3	-0.3	0	3.5	4.2	0.7	2.1	2	-0.1	-23.5	-25.5	-2
Other services	5.2	6.9	1.7	0.5	0.4	-0.1	0	-6	-6	4.9	5.3	0.4	32.9	40.1	7.2
Income	-10.4	-15.1	-4.7	3.9	3.5	-0.4	-0.6	-9.1	-8.5	-1.9	-2	-0.1	23.3	11.5	-11.8
Current transfers	1	0.7	-0.3	-1.1	-1.1	0	-2	-1.5	0.5	-0.1	0.5	0.6	-40.6	-44.8	-4.2

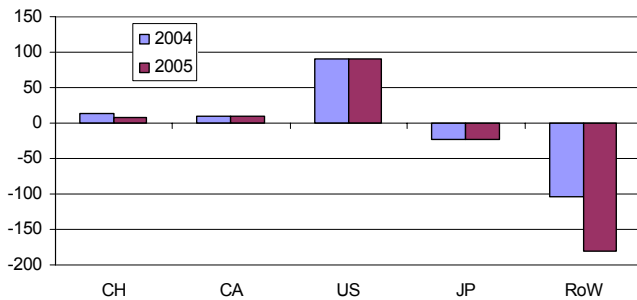
Source: Eurostat

Figures may not add up due to rounding

⁴ The item "Other business services" covers services transactions between residents and non-residents, such as the placement of personnel, security and investigative services, translation and interpretation, photographic services, building cleaning, real estate services to businesses and any other business services that cannot be classified to any of the aforementioned business services.

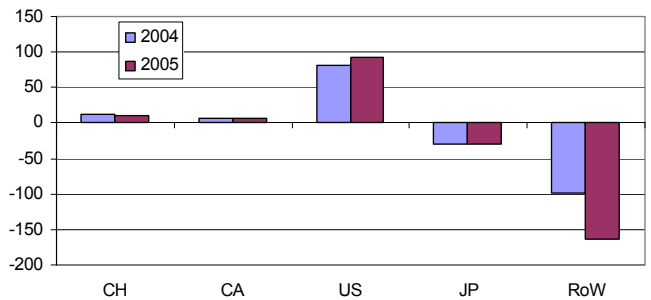
⁵ Rest of the World = all territories outside EU25 excluding Switzerland, the USA, Canada and Japan

Graph 6: Current account balance with Switzerland, Canada, the USA, Japan and the rest of the World⁵ (bn €)



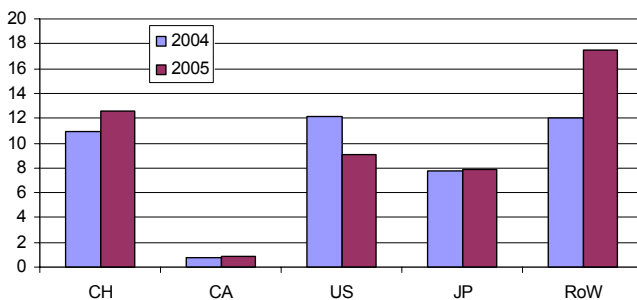
Source: Eurostat

Graph 7: Goods balance with Switzerland, Canada, the USA, Japan and the rest of the World⁵ (bn €)



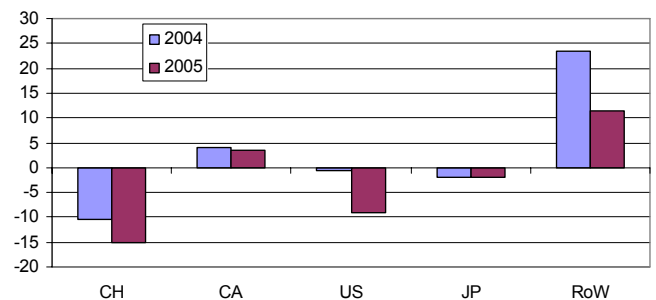
Source: Eurostat

Graph 8: Services balance with Switzerland, Canada, the USA, Japan and the rest of the World⁵ (bn €)



Source: Eurostat

Graph 9: Income balance with Switzerland, Canada, the USA, Japan and the rest of the World⁵ (bn €)



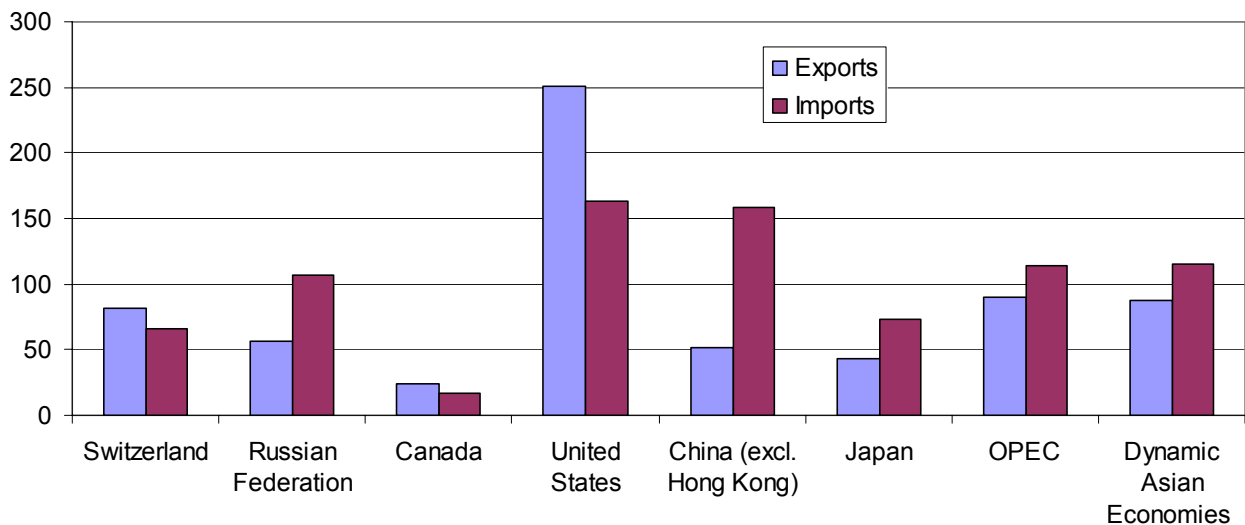
Source: Eurostat

As mentioned earlier, the deterioration in the total *current account* in 2005 is mainly due to a sharp increase in the trade in *goods* deficit. When breaking down this figure according to selected trading partners, as shown in Graph 10, we observe a high deficit with China (excluding Hong Kong), the Russian Federation, Japan, the Dynamic Asian Economies (Hong Kong,

South-Korea, Malaysia, Singapore, Thailand and Taiwan [China]) and the Organisation of Petroleum Exporting Countries (OPEC).

With respect to 2004, the sharpest deterioration in 2005 was recorded with OPEC, the Russian Federation and China, as shown in Graph 11.

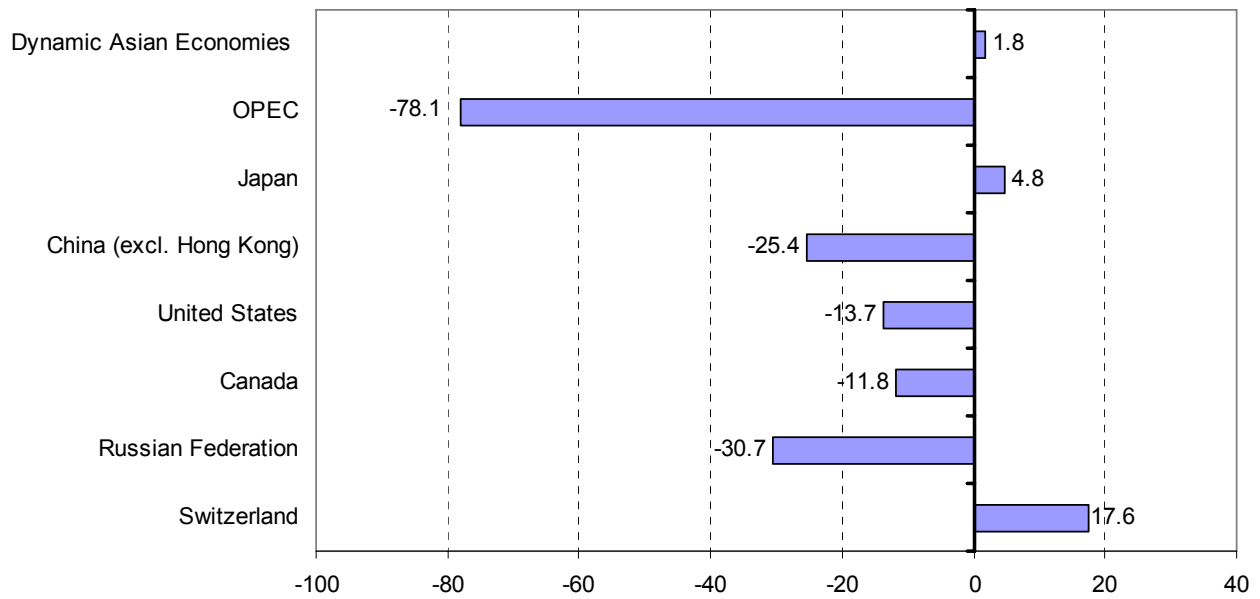
Graph 10: Goods balance: EU25 selected trading partners in 2005 (bn €)



Source: Eurostat - Foreign Trade Statistics

⁵ Rest of the World = all territories outside EU25 excluding Switzerland, the USA, Canada and Japan

Graph 11: Evolution in trade in goods balance between 2004 and 2005 (in %)



Source: Eurostat - Foreign Trade Statistics

➤ ESSENTIAL INFORMATION – 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. Detailed trade in services results for 2005 will be issued by the end of December 2006. The 2004 results for the services main items, as presented here, may differ from those previously released under the annual detailed trade in services release, due to revisions in the underlying quarterly data.

The balance of payments records all economic transactions between a country (i.e. its residents) and foreign countries or international organisations (i.e. the non-residents of that country) during a given period. As part of the balance of payments, the current account takes care of real resources and is subdivided into four basic components: goods, services, income and current transfers. The methodological framework used is that of the fifth edition of the International Monetary Fund Balance of Payments Manual (BPM5). The EU balance of payments is compiled by Eurostat in accordance with a methodology agreed with the European Central Bank (ECB) based on extra-EU transactions, i.e. by aggregating cross-border transactions of EU residents vis-à-vis non-EU residents as reported by the 25 participating Member States. The balance of payments of the EU institutions is added to the EU aggregate.

The ECB compiles Balance of Payments data for the Euro-zone. For more information on Euro-zone Balance of Payments data, see the ECB website <http://www.ecb.int/stats/mb/eastats.htm>. Eurostat provides, also for the Euro-zone, the annual detailed breakdowns of the item services, both by components and geographical breakdown. These breakdowns, available in full detail only with the final results, are not produced by the ECB.

Eurostat data concerning the Euro-zone total services item do not match up exactly with those released by the ECB, due to different revision timetable and level of detail.

All the figures can be downloaded free of charge from the balance of payments section of the Eurostat web site (<http://europa.eu.int/comm/Eurostat/>).

Further information:

Databases

[EUROSTAT Website/Economy and finance/Balance of payments - International transactions/Balance of payments statistics/European Union balance of payments](#)

Journalists can contact the media support service:

Bech Building Office A4/017
L - 2920 Luxembourg
Tel. (352) 4301 33408
Fax (352) 4301 35349
E-mail: eurostat-mediasupport@ec.europa.eu

European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site: <http://ec.europa.eu/eurostat/>

A list of worldwide sales outlets is available at the:

Office for Official Publications of the European Communities.

2, rue Mercier
L - 2985 Luxembourg
URL: <http://publications.europa.eu>
E-mail: info-info-opoce@ec.europa.eu