Balance of payment statistics - background

Statistics Explained

This article provides background information on how balance of payments and international investment position are calculated and presented. The article includes statistical concepts and definitions, data sources, quality issues and information on how Eurostat goes about disseminating and revising data.

Statistical concepts and definitions

Balance of payments (BOP) is a statistical statement that systematically summarises, over a given period of time, all the transactions of an economy with the rest of the world. The balance of payments records all economic transactions during a given period involving a change in ownership between residents and non-residents of a country.

Balance of payments is broken down into three broad sub-balances:

- 1. **Current account** , which shows the flows of:

a. **Goods** , which covers:

- general merchandise;
  - non-monetary gold;
  - net exports of goods under merchanting.

When calculating EU aggregate values, the **goods** item also includes branding – quasi transit trade adjustment, which is not included in Member States' **national data.**

b. **Services** , which consists of:

- manufacturing services on physical inputs owned by others;
  - maintenance and repair services;
  - transport;
  - travel;
  - construction services;
  - insurance services;
  - financial services;
  - charges for the use of intellectual property;
  - telecommunications;
  - computer and information services;
  - other business services (including research and development services, professional and management consulting services and technical, trade-related and other business services);
  - personal;
  - cultural and recreational services;
  - government goods and services.

c. **Primary income** , which covers:

- compensation of employees;
- investment income (income derived from ownership of external financial assets and liabilities, payable by residents of one economy to residents of another economy).

As with the related financial account, investment income is classified under direct investment, portfolio investment, other investment and reserve assets income and other primary income (which includes rent, taxes and subsidies on products and production).

d. **Secondary income** , which consists of all transfers that are not capital transfers.

- 2. **Capital account** , which covers all transactions that involve:

a) the receipt or payment of capital transfers (debt forgiveness, non-life insurance claims, investment grants, one-off guarantees and other debt assumption, capital taxes and other capital transfers);

b) the acquisition/disposal of non-produced, non-financial assets. This includes transactions associated with tangible assets (e.g. land and subsoil assets) and with intangible assets (e.g. patents, copyrights, trademarks, franchises, etc.).

- 3. **Financial account** , which covers all transactions associated with changes of ownership in the foreign financial assets and liabilities of an economy. The financial account is broken down into five basic functional categories:

- direct investment (divided by instrument into equity and investment fund shares, reinvestment of earnings and debt instruments);
- portfolio investment (divided by instrument into equity and investment fund shares, reinvestment of earnings for investment fund shares and debt securities);
- financial derivatives and employee stock options;
- other investment (divided by instrument into other equity, currency and deposits, loans, insurance, pension schemes and other standardised guarantee schemes, trade credits and advances, other accounts receivable/payable and special drawing rights);
- official reserve assets (divided by instrument into monetary gold, special drawing rights, reserve position in the International Monetary Fund and other reserve assets).

The international investment position (IIP) shows stock of financial assets and liabilities at the end of each quarter. Stocks at the end of period **T** should be equal to the sum of the value of stocks at the end of period **T-1** (equal to the value at the beginning of period **T**), to the value of transactions during period **T** (**T**) and to the value of changes in positions other than transactions. Changes in positions other than transactions consist of:

- revaluations due to exchange rate changes;
- revaluations due to other price changes;
- other changes in the volume of assets/liabilities.

For the **current and capital account** items, credits and debits are recorded with a plus sign (even though some exceptions can occur, such as for reinvested earnings in direct investment income, insurance services or for net exports of goods under merchanting). For the most part, only balances in accounts carry a negative sign. The balance is calculated as credits minus debits and may be positive or negative.

For the **BOP financial account** and **revaluations** , a positive sign represents an increase in an asset or a liability to which it relates, while a negative sign represents a decrease. Therefore, for **net acquisition of asset** and **net incurrence of liabilities** , a plus sign denotes a net increase in financial assets or liabilities, while a minus sign refers to a net decrease in financial assets or liabilities. The net amount is calculated as net acquisition of assets minus net incurrence of liabilities and may be positive or negative.

In **international investment position** data for assets and liabilities, values should be positive although negative values may be observed in exceptional circumstances. These very rare exceptions may occur, for example in the context of FDI (foreign direct investment) equity, where the accumulated losses (reported as negative reinvestment of earnings) are larger than the total equity (other than reinvestment of earnings).

Balance of payments is built around a **double-entry accounting system** . This means that the overall balance of payments should add up to zero. However, several factors (timing, valuation, data sources, etc.) can cause imbalances in the information recorded. The BOP item **Net errors and omissions** is used to balance the **Current and Capital account** with the **Financial account** .

Data sources

Data published by Eurostat are compiled on the basis of data provided by Member States. Member States **national central banks or national statistical offices provide Eurostat with data using a set of questionnaires approved by all Member States and designed to fulfil a set of requirements.**

Each country compiles its balance of payments statistics using the data from a number of surveys and administrative sources. Methods used to collect and compile statistics differ from one BOP item to another within a country and from one country to another.

- Data for the BOP item **Goods** are generally based on International Trade in Goods Statistics, which are often collected by customs administrations.
- Data for the BOP item **Services** come from a variety of surveys, with data reported either by banks or directly by the enterprises or the households.
- Data the for BOP item **Primary Income** are generally estimated using information from the banking sector and other financial institutions.
- Data for the BOP item **Secondary income** generally come from administrative sources.
- Data for the BOP **Financial account and International investment position** generally come from banks and from other financial and non-financial institutions.

Central banks have provided for a long time parts of the information used for the compilation of the BOP through the so called **settlements system** or International Transactions Reporting System (ITRS). Under this system banks have to report, generally to their national central bank, all information on cross-border settlements they have carried out on their own behalf or on behalf of customers. ITRS has become less accurate in recent years because companies are using new techniques to manage their assets.

An exemption threshold for banks' reporting on behalf of their customers was introduced by Regulation 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro and Regulation 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community.

Settlement-based national reporting obligations on payment service providers for BOP statistics on payment transactions of banks' customers was removed with effect from February 2016 under Regulation 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

To make up for this loss of information, EU Member States have introduced new direct reporting systems and new surveys.

Data quality issues

In October 2014 Eurostat started data dissemination in accordance with the requirements of the sixth edition of the **Balance of Payments and International Investment Position Manual** (BPM6). The BPM6 was published by the International Monetary Fund IMF in 2009, updating the fifth edition (BPM5) released in 1993. The BPM6 provides the standard framework for compiling statistics on transactions (balance of payments – BOP) and positions (international investment position - IIP) between an economy (an individual country, a currency union (such as the euro area) or an economic union (such as the EU)) and the rest of the world. The BPM6 provides and explains concepts, definitions, classifications and conventions for BOP and IIP statistics, improves international comparability of data by promoting internationally adopted guidelines and highlights links to other macroeconomic statistics to promote consistency between different statistical domains. The BPM6 is consistent with:

- the European System of National and Regional Accounts (ESA 2010) and the System of National Accounts 2008 (2008 SNA), which set the statistical framework for national accounts;
- the fourth edition of the **Benchmark Definition of Foreign Direct Investment** (BD4) of the Organisation for Economic Co-operation and Development (OECD), which provides additional guidelines for foreign direct investment (FDI statistics).

The BPM6 reflects changes in the global economy since 1993. This period has been characterised by significant growth in cross-border activity due to the removal of trade barriers and capital controls. International corporate structures have become increasingly complex, characterised by global value chains, financial linkages and ownership structures. Cross-border financial flows have also risen substantially due to dynamic growth in international capital markets. Globalisation has led to new policy challenges, many of which are reflected in the changes introduced by the BPM6. As transaction volumes often account for only part of stocks, positions are often more useful as an indicator of an economy's external financial situation. Having a common global reference ensures comparability and consistency in BOP and IIP statistics, not only in Europe but also around the world. To monitor data quality, Eurostat prepares annual quality reports for the BOP, FDI and international trade in services (ITS) statistics domain. These contain information on relevance, accuracy, timeliness, punctuality, accessibility, clarity, comparability and coherence. Eurostat also regularly checks consistency with related statistics such as national accounts and international trade in goods statistics. Balance of payments statistics is the input for the Rest of the World account in National Accounts. In order to further improve the consistency between different sources of data and/or different statistical frameworks like the balance of payments accounting framework or the national accounts accounting framework, the balance of payments manual was revised at the same time as the national accounts framework and adapted in line with their development. Together, the European Commission, the IMF, the Organisation for Economic Cooperation and Development (OECD), the United Nations (UN) and the World Bank revised and published the System of National Accounts (SNA 2008). The accounting rules for the EU countries are specified in further detail and enshrined in the European System of National and Regional Accounts (ESA 2010). The changeover to the two new international standards took place in the EU in the course of 2014 and required some significant compilation and technical adjustments in the Member States. The concepts for the balance of payments statistics and the national accounts in the Member States are now theoretically completely consistent with one another. Eurostat and the Member States work closely together in order to eliminate as much as remaining existing discrepancies.

As consistency represents a prominent quality criterion and the new methodological standards allow for full reconciliation of BOP and national accounts data sets, consistency monitoring is considered by Eurostat and the Member States as an appropriate way forward to address bilateral issues among Member States in order to improve the data quality. Conceptual consistency fosters the international comparability of statistics, even when compiled by different institutions.

Data dissemination and revisions

Eurostat publishes monthly, quarterly and annual balances of payments, as well as quarterly and annual international investment position data. Monthly data are sent 44 days after the reference month and published in a press release four or five days after their receipt. The quarterly data released first are calculated as the sum of monthly data and should therefore be considered provisional.

Quarterly data are revised when the Member States send more detailed information (by components and geographical breakdown) 85 days after the reference quarter. Quarterly data are also revised when Member States provide information for the next quarters. In order to ensure consistency between quarterly and annual figures, quarterly data are also revised when the annual data are published. For monthly and quarterly balances of payments, Eurostat publishes seasonally- and working day-adjusted data as well as non-adjusted data.

Challenges for producers and users of European balance of payments statistics

European statistics, i.e. both the statistics produced by the Members of the European Statistical System (ESS) and those produced by the Members of the European System of Central Banks (ESCB) have benefited from close cooperation between Eurostat and the ECB. Responsibility for balance of payments statistics and the international investment position is shared between the European Commission (Eurostat) and the ECB (Directorate General Statistics). The framework for the joint definition and compilation of balance of payments and international investment position statistics at the European level is laid down in two Memorandums of Understanding (with Annexes): the first Memorandum of Understanding on economic and financial statistics between the Directorate General Statistics of the European Central Bank (DG Statistics) and the Statistical Office of the European Communities (Eurostat) dated 10 March 2003. It is accompanied by two Annexes. Annex 1 is related to the 'Share of responsibilities in the field of balance of payments and international investment position statistics'. Annex 2 is related to a 'Service Level Agreement (SLA) on Data Exchanges between the Directorate General Statistics of the European Central Bank (DG Statistics) and the Statistical Office of the European Communities (Eurostat)'. The second Memorandum of Understanding on the cooperation between the Members of the European Statistical System and the Members of the European System of Central Bank was signed on 24 April 2013 with the purpose to enhance in a symmetric way the cooperation between the two systems as producers of European Statistics. With regard to the conceptual work, the ECB has prime responsibility for issues concerning the financial account and investment income, and the IIP, whereas Eurostat has prime responsibility for issues concerning all other parts of the current account (except investment income) and the capital account. In view of the joint interest and expertise in foreign direct investment statistics, the ECB and Eurostat share responsibility and tasks in this area.

European balance of payments statistics have traditionally been a fundamental macro analysis tool for a wide range of users, such as governments, international organisations, private enterprises and researchers. These statistics are used by the ECB for monetary policy, by the European Commission for economic policy and trade negotiations, and by national governments for regional analysis of various kinds. In the private sector, businesses and researchers use balance of payments for analysing the structure and evolution of the general economic framework and, to the extent that detailed data are available, for studies on specific sub-sectors – e.g. trade in services or foreign direct investment.

In a world of increasing globalisation, where political, economic and technological barriers are rapidly disappearing, the ability of a country to participate in global activity is an important indicator of its performance and competitiveness. Balance of payments and international investment position statistics form the only available accounting framework which measures all types of international economic transactions.

The lifting of foreign exchange restrictions, the increasing number and complexity of cross-border financial transactions and the integrated management of payments made by multinationals led to the increasing challenges in the compilation of the high quality balance of payments data, particularly for the financial account and the related investment income. Greater use is made of information obtained directly from firms or individuals, and the fuller use is made of sampling and estimation methods. Globalization has brought several issues to greater prominence. An increasing number of individuals and companies have connections to two or more economies and economies increasingly enter into economic arrangements. Additionally, globalized production processes have become more important, so there is a need to provide a fuller and more coherent picture of outsourced physical production processes (i.e., goods sent abroad for processing) and sales and management of manufacturing that do not involve physical possession (i.e., merchanting). Financial innovation led to the emergence and growth of new financial instruments and arrangements among institutional units. Examples of instruments covered include financial derivatives, securitization, index-linked securities, and gold accounts. Complex, multi-economy corporate structures with special purpose entities (SPEs) and other legal structures that are used for holding assets and that have little or no physical presence in the economy have become increasingly common, which makes establishment of economic owners' residence often challenging.

Other articles

- Balance of payment statistics
- Balance of payments and international investment position manual (BPM6)

Database

- Balance of payments (bop)

Dedicated section

- Balance of payments

Publications

- Balance of Payments Vademecum

Methodology

- Balance of payments statistics and International investment positions (ESMS metadata file — bop_6_esms)

Legislation

EU legislation in the area of balance and international investment position statistics:

- Regulation 184/2005 of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment
- Summaries of EU Legislation: EU statistics — balance of payments, trade in services and foreign direct investment
- Regulation 555/2012 amending Regulation 184/2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions
- Regulation 1055/2008 of 27 October 2008 implementing Regulation No 184/2005, as regards quality criteria and quality reporting for balance of payments statistics
- Regulation 1227/2010 of 20 December 2010 amending Regulation (EC) No 1055/2008 implementing Regulation No 184/2005, as regards quality criteria and quality reporting for balance of payments