

Differences between balance of payments and foreign trade statistics

Statistics Explained

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Balance of payments statistics (BOP) cover an economy's transactions with the rest of the world. Among those trade in goods and services plays a prominent role. The current account of the balance of payments shows an economy's trade in goods and services by residents with non-residents as separate components. It records gross transactions, i.e. exports (credit) and imports (debit), and the resulting balance (credit minus debit). The methodological standard for the compilation of BOP statistics is the IMF's 6th edition of the Balance of Payments and International Investment Position Manual (BPM6). Similarly, foreign trade statistics cover an economy's exports and imports of goods and services. In this context, international trade in goods statistics (ITGS) focus on the cross-border trade in goods, and international trade in services statistics on cross-border trade in services (ITSS). While the methodological standard for the compilation of ITSS remains the aforementioned BPM6, compilation of ITGS is referred to the UN Manual of International Merchandise Trade Statistics (IMTS 2010), which also bears elements of references to the BPM6. However, the application of two different methodological standards in statistics on international trade in goods has consequences for the comparability of BOP and ITGS, when it comes to comparing the two statistics for the sake of quality assessments or economic reading. This article elaborates on the methodological differences between BOP and ITGS, in order to clarify potential misleading conclusions and explain why BOP statistics may differ from the corresponding trade statistics.

Different concepts in the methodologies of BPM6 and IMTS 2010

Although both manuals contain references to each other, the reconciliation of methodologies appears difficult. The BPM6 (and its corresponding methodological standards in national accounts ESA 2010/SNA2008) is based on the fundamental principles of residence and change of ownership. Residence is determined by a person's or company's centre of economic interest, i.e. living, working, producing, etc. in a specific country for at least one year (BPM6, Chapter 4E). Although this "one-year rule" appears somewhat arbitrary, it helps to establish a practical concept of residence and distinguishes from short-term contract/seasonal economic activities (below one year). In BOP statistics, the change of ownership between a resident and a non-resident is the major prerequisite of recording a transaction (BPM6 paragraph 10.13). Trade in general merchandise on BOP basis is therefore determined by the contingency of changing ownership rather than physical movement of the merchandise. Ideally, the physical movement of goods could be related to a change of ownership in a standard trade situation. However, the concept of goods in BPM6 is broader and goes beyond trade in merchandise to include also net exports under merchanting and trade in non-monetary gold (see standard presentation, BPM6 appendix 9). As a consequence, ITGS is used by BOP compilers as an important data source for compiling the international trade in general merchandise, but requires additional adjustments and complementation (BPM6 paragraph 10.27).

Reconciliation between merchandise source data and total goods on a BOP basis

	BPM6 paragraph	Exports	Imports
Merchandise trade statistics as provided in source data			
Adjustments, as relevant:			
+ Goods procured in ports by carriers	10.17 (d)		
+ Fish catch, minerals from the seabed and salvage sold from resident-operated vessels	10.17 (e)		
+ Goods changing ownership entering/leaving territory illegally	10.17 (i)/(j)		
+/- Goods lost or destroyed in transit	10.17 (m)		
+ Goods acquired from other economies for processing abroad	10.65 (b)	n.a.	
+ Goods sold abroad after processing in other economies	10.66 (b)		n.a.
+/- Goods changing ownership in customs warehouses or other zones	10.25		
- Migrants' personal effects	10.22 (b)		
- Goods imported for construction projects by non-resident enterprises	10.22 (d)		
- Goods for repair or storage without change of ownership	10.22 (e)		
- Goods sent abroad or returned after processing without change of ownership	10.22 (f)		
- Returned goods	10.22 (i)		
+/- High-value capital goods, if delivery differs from change of ownership	10.28		
- CIF/FOB adjustment	10.34	n.a.	
+ Net exports of goods under merchanting	10.44 (c)		n.a.
+ Non-monetary gold	10.50		
= Total goods on a balance of payments basis			

Note: n.a. not applicable; list of adjustments is not comprehensive, but indicative of commonly made adjustments

Source: BPM6 Table 10.2

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Table 1: Reconciliation between merchandise source data and total goods on a BOP basis Source: BPM6 Table 10.2

The IMTS 2010 as the methodological standard of ITGS is based on physical movements as sufficient criterion in order to record cross-border transactions in goods, although it also recommends the use of the change of ownership criterion in exceptional cases (IMTS paragraph 1.4). However, data collection systems often lack the necessary mechanism to determine a change of ownership, supporting the evidence of physical movements across economic territories as sufficient criterion for practical reasons (IMTS paragraph 0.18). Accordingly it is recommended that goods are recorded at the time when they enter or leave the economic territory of a country (IMTS paragraph 1.8).

Understanding differences between BOP and ITGS

Due to the different concepts applying to BOP and ITGS, differences in the statistical products are most likely. These differences can arise from transactions in goods that either do not physically cross borders, or that do not involve a change of ownership although being shipped across borders. Additionally, valuation differences can also impact comparability. In order to better understand the conceptual impact, we will discuss selected items of particular relevance¹.

¹For the full list see the BPM6 Compilation Guide Table 11.1. and in IMTS 2010 Annex F.

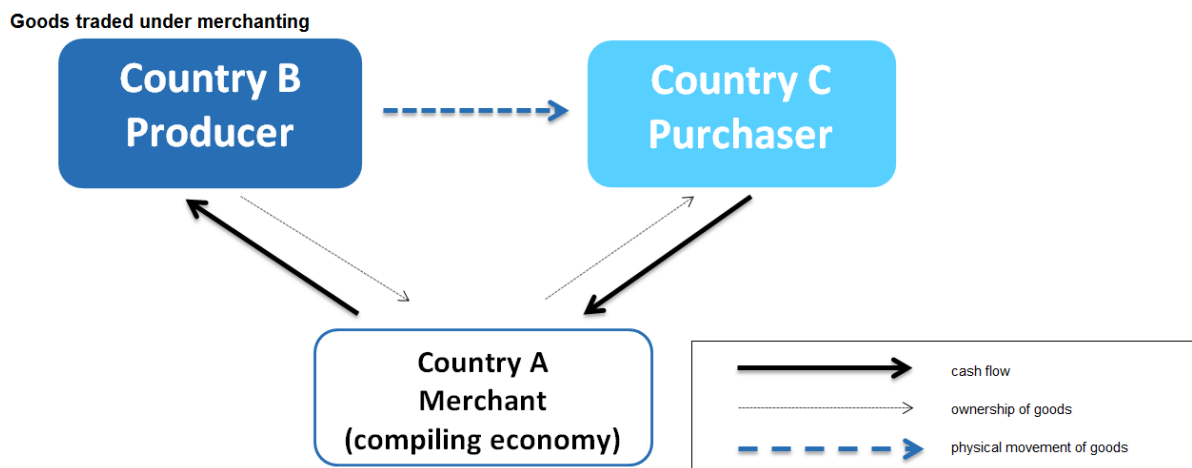


Figure 1: Goods traded under merchanting Source: Eurostat Manual on goods sent abroad for processing

Goods not crossing borders

Goods that are not shipped across borders are usually not covered in IMTS. When a change of ownership takes place, however, the BOP compiler has to collect these items separately and add them to BOP transactions in goods. For the following items, separate recording in BOP statistics under the goods account is foreseen by the BPM6.

Goods under merchanting

Merchanting is defined as the purchase of goods by a resident from a non-resident combined with the subsequent resale of the same goods to another non-resident without the goods being present in the compiling economy (BPM6 paragraph 10.41). As a change of ownership applies, the BOP compiler records a transaction, while ITGS explicitly excludes this from recording (IMTS paragraph 1.50).

For the treatment of merchanting in BOP (BPM6 paragraph 10.44):

- (a) the acquisition of goods by merchants is shown under goods as a negative export of the economy of the merchant;
- (b) the sale of goods is shown under goods sold under merchanting as a positive export of the economy of the merchant;
- (c) the difference between sales over purchases of goods under merchanting is shown as the item “net exports of goods under merchanting”;
- (d) merchanting entries are valued at the transaction price agreed by the parties, not **FOB** (free on board).

As BPM6 suggests, with net recording of merchanting under exports of goods, negative export (negative credit) transactions could occur in economies with merchanting as a prominent economic activity. In such cases, gross transactions in BOP would show considerable differences to ITGS transactions. Net recording also makes economic reading of BOP exports of goods more difficult², and thus impacts the net balances of the BOP goods account.

Trade in non-monetary gold

²The amount of exports of general merchandise is increased/reduced by positive/negative net exports of goods under merchanting.

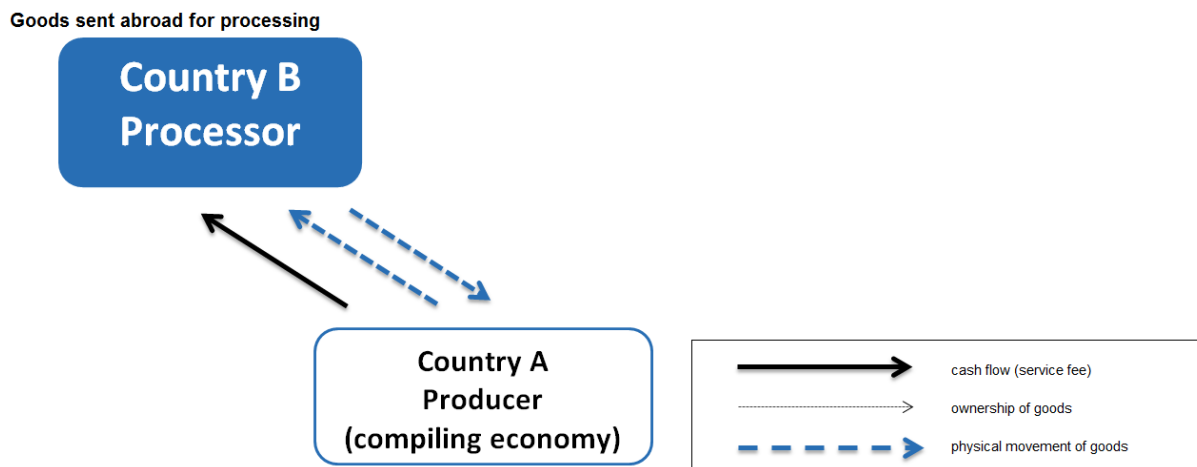
Non-monetary gold covers all gold other than monetary gold³. It can be held in the form of bullion (coins, ingots, bars, powder, etc.) and is traded between residents and non-residents, valued at transaction prices rather than FOB (BPM6 paragraph 10.50). However, non-monetary gold transactions between residents and non-residents do not necessarily require their physical movement, and would therefore appear excluded from ITGS.

Lost or destroyed goods after transfer of ownership but before crossing borders

The BPM6 includes a specific case of lost or destroyed goods where change of ownership has already taken place before transportation across borders. These goods acquired by an importer before entering the economic territory of the importing country have to be recorded in BOP (BPM6 paragraph 10.17 (m)), but are excluded in ITGS (IMTS paragraph 1.60)⁴.

Goods not changing ownership

Goods that are shipped across borders for the purpose of a substantial transformation (processing) are recorded in IMTS as exports and imports. The BOP compiler has to identify these transactions in IMTS source data, where no change of ownership takes place, and eliminate them from recording.



Note: Producer in Country A send goods temporarily to Country B for further processing, and receives them back afterwards

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Figure 2: Goods sent abroad for processing Source: Eurostat Manual on goods sent abroad for processing

Goods for processing

All cases where goods are sent abroad for processing and goods returned resulting from such processing are included in merchandise exports and imports at their gross value (IMTS paragraph 1.20). Consequently, ITGS includes also transactions in goods, where no change of ownership happens. On the other hand, the BOP compiler has to exclude them from recording in BOP goods. Instead, only the recording of a service fee charged to the owner is foreseen in the services account under “manufacturing services on physical inputs owner by others” (BPM6 paragraph 10.64). The comparison of ITGS and BOP is thus even more challenged, as BOP goods do not only fail to reflect the equivalent transactions in goods for processing of ITGS, but contain instead a charged service fee that is recorded under the BOP services component account (instead of BOP goods). However, for better

³Monetary gold is gold owned by monetary authorities and is held as their reserve assets.

⁴IMTS foresees only separate recording

comparability the BPM6 recommends the movement of goods under processing arrangements to be identified as supplementary item for both the owner and the provider of manufacturing services (BPM6 paragraph 10.67).

Returned goods (without processing abroad)

For returned goods a purchase transaction is reversed with the final consequence of no changing ownership. Returned goods are recommended to be included in IMTS as corresponding exports and imports (IMTS paragraph 1.23). The BPM6 recommends that in the case of returned goods, revised entries be made to exports and imports and transaction be voided, preferably for the period when the goods were initially recorded (BPM6 paragraph 10.22(i)). These corrections trigger differences in gross transactions for both statistics.

Migrants' effects

In economies where migration is taking place on a significant scale and migrants carry their personal property with them, ITGS includes physical movements of migrants' effects (IMTS paragraph 1.26). As no change of ownership occurs, BOP does not record any transaction in goods.

Goods imported for construction projects by non-resident enterprises

These operations are not sufficiently substantial to constitute a branch of the enterprise in the host country. The BPM6 does not suggest recording in goods (BPM6 paragraph 10.22(d)) as this does not involve any resident in the transaction, while the IMTS does (IMTS annex F.10).

Goods crossing borders and changing ownership but recorded differently

There are specific cases where the standards recommend different treatment, although both change of ownership and cross-border movement take place. This concerns the recording of illegal economic activities in connection with trading goods, i.e. the trade in legal and illegal goods that enter/leave the country illegally. In such circumstances change of ownership and physical movement of merchandise across borders take place without officially being registered (e.g. smuggling).

Goods entering or leaving the economic territory of a country illegally

This category includes smuggling, trade in stolen vehicles and shipment of narcotic substances. It is recommended to exclude these transactions from IMTS but record them separately (IMTS 2010 paragraph 1.59). BPM6 includes in general merchandise the trade in illegal and smuggled goods (BPM6 paragraph 10.17 (i) and (j)).

Different valuation concepts

CIF / FOB adjustment in BOP

For IMTS it is recommended that the statistical value of exported goods be an FOB-type value and the statistical value of imported goods be a CIF (cost, insurance and freight) type value (IMTS paragraph 4.8). BPM6 requires that imports and exports are valued at a point of uniform valuation, which is at the customs frontier of the economy from which the goods are first exported (BPM6 paragraph 10.30). Thus, the recording of imported goods occurs at different valuation in both statistics. While IMTS recommends CIF-type valuation for imports, BOP applies FOB-type valuation for imports of goods.

Data sources

BOP statistics published by Eurostat is compiled on the basis of data provided by Member States. The national central banks or national statistical offices of Member States provide Eurostat with data using a set of questionnaires approved by all Member States and designed to fulfill the legal requirements. Each country compiles its own BOP statistics using the data from a number of surveys, data collection systems and administrative sources, while its compilation is conducted either by one institution (central bank or statistical office)

or both. Methods used to collect and compile differ from one BOP item to the other within a country and from one country to another. Data for the BOP item goods are generally based on ITGS, which is often collected from customs administrations. The BOP compiler applies adjustments and complementation on these data, in order to accommodate the methodological differences between the BPM6 and IMTS 2010. Eurostat publishes monthly, quarterly and annual balances of payments. Monthly data are sent 44 days after the reference month, quarterly data are sent 85 days after the reference quarter with more details (by components and geographical breakdowns). Quarterly data are also revised when the annual data are published, in order to ensure consistency between quarterly and annual figures.

ITGS is published by Eurostat based on monthly reports by Member States, that are regularly revised according to needs and practices. Final details data arrive at the latest by October following the reference year. [Eurostat's COMEXT](#) database is the reference database for international trade in goods. It provides access not only to both recent and historical data from the EU Member States, but also to statistics for a significant number of non-member countries. Aggregated and detailed statistics for international trade in goods as disseminated through Eurostat's website are compiled from COMEXT each month. As COMEXT is updated on a daily basis, data published on the website may differ from the data found in COMEXT (in case of recent revisions).

Data comparisons across the statistical domains of BOP and ITGS are generally subject to revision and vintage effects, given different statistical release and revision calendars. This could further add up to measured methodological differences.

Context

The EU is a major player in the global economy for international trade in goods and services, as well as foreign investment. Balance of payments statistics give a complete picture of all external transactions for the EU and its individual Member States. Indeed, these statistics may be used as a tool to study the international exposure of different parts of the EU's economy, however methodological differences to mirror statistics such as international trade statistics on goods, should be kept in mind, when conducting quality assessments of the data. The European Commission launches regular initiatives to calibrate macroeconomic risks in the EU Member States (such as the [Macroeconomic imbalance procedure](#) and [The European semester](#)). Potential macroeconomic risks are analysed among others by using 14 scoreboard indicators and additional auxiliary indicators. Some of them incorporate information from BOP statistics, e.g. current account balances, export shares, etc. Users conducting quality assessments in this context should keep in mind the methodological differences when comparing data of BOP trade in goods with the ITGS, and should not prematurely conclude on quality shortcomings in the light of the observed differences in both statistics.

Other articles

- [Balance of Payments and International Investment Position Manual \(BPM6\)](#)
- [Balance of payment statistics - background](#)
- [Balance of payments statistics - quarterly data](#)
- [Consistency between national accounts and balance of payments statistics](#)
- [International trade in goods](#)
- [International trade in services](#)

Database

- [Balance of payments \(bop\)](#) , see:

Balance of payments - international transactions (BPM6) (bop_6)

- [International trade in goods \(ext_go\)](#), see:

[International trade in goods - aggregated data \(ext_go_agg\)](#)

[International trade in goods - detailed data \(detail\)](#)

- [Eurostat COMEXT database](#)

Publications

- [Quality report on balance of payments, international trade in services and foreign direct investments — 2018 edition](#) — Statistical Reports 05/01/2018
- [Differences between Balance of Payments and Foreign Trade Statistics, Luxembourg, Eurostat, 2004](#)
- Overview of all articles in [Statistics Explained](#) on international trade in goods
- [Consistency between national accounts and balance of payments statistics](#) — Statistical Reports 21/09/2017

Dedicated section

- [Balance of payments](#)
- [International trade in goods](#)

Methodology

- [Balance of payments and international investment position manual, Washington D.C., IMF 2009, 6th edition \(BPM6\)](#)
- [BPM6 Compilation Guide, Washington D.C., IMF 2011](#)
- [International Merchandise Trade Statistics: Concepts and Definitions 2010, New York, UN 2011 \(IMTS\)](#)
- [Manual on goods sent abroad for processing, Luxembourg, Eurostat, 2004](#)

Legislation

- [Regulation \(EC\) No 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 \(EU\) No 555/2012](#) of 22 June 2012 amending Regulation (EC) No 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 \(EC\) No 471/2009](#) of 6 May 2009 on Community statistics relating to external trade with non-member countries
- [Regulation \(EU\) No 92/2010](#) of 2 February 2010 implementing Regulation (EC) No 471/2009, as regards data exchange between customs authorities and national statistical authorities, compilation of statistics and quality assessment
- [Regulation \(EU\) No 113/2010](#) of 9 February 2010 implementing Regulation (EC) No 471/2009, as regards trade coverage, definition of the data, compilation of statistics on trade by business characteristics and by invoicing currency, and specific goods or movements.
- [Regulation \(EC\) No 638/2004](#) of 31 March 2004 on Community statistics relating to the trading of goods between Member States and repealing Council Regulation (EEC) No 3330/91.
- [Commission Regulation \(EC\) No 1982/2004](#) of 18 November 2004 implementing Regulation (EC) No 638/2004 of the European Parliament and of the Council on Community statistics relating to the trading of goods between Member States and repealing Commission Regulations (EC) No 1901/2000 and (EEC) No 3590/92.

External links

- [Main changes in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual](#)
- [UN trade statistics](#)