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2005 on Community statistics concerning balance of payments,
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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the implementation of Regulation (EC) No 184/2005 of the European Parliament and
of the Council of 12 January 2005 on Community statistics concerning balance of
payments, international trade in services and foreign direct investment**

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1. INTRODUCTION

The main objective of Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment ("the Regulation")¹ is to establish a common framework and statistical quality standards for the systematic production of European Union statistics on these subjects.

Article 12 of the Regulation states that the Commission must submit a report on the implementation of the Regulation to the European Parliament and the Council by 28 February 2018 and every 5 years after that date. The report must:

- (1) evaluate the quality of data on balance of payments, international trade in services and foreign direct investment;
- (2) assess the benefits accruing to the European Union, its Member States and the providers and users of statistical information from the statistics produced, in relation to the costs;
- (3) identify, in the light of the results, any areas that could be improved and any amendments considered necessary.

In accordance with that Article, this report examines the principal aspects of the Member States' implementation of Regulation (EC) No 184/2005 and the measures which the Commission has taken to ensure that EU-level statistics on balance of payments, international trade in services and foreign direct investment meet high quality standards.

2. IMPLEMENTING MEASURES

Since the adoption of Regulation (EC) No 184/2005, the Commission has adopted the following amending or implementing legal acts:

- (1) Commission Regulation (EC) No 601/2006²;
- (2) Commission Regulation (EC) No 602/2006³;
- (3) Commission Regulation (EC) No 1055/2008⁴;
- (4) Commission Regulation (EC) No 707/2009⁵;
- (5) Commission Regulation (EU) No 555/2012⁶;

¹ OJ L 35, 8.2.2005, p. 23.

² Commission Regulation (EC) No 601/2006 of 18 April 2006 implementing Regulation (EC) No 184/2005 of the European Parliament and of the Council as regards the format and the procedure for the transmission of data (*OJ L 106, 19.4.2006, p. 7*).

³ Commission Regulation (EC) No 602/2006 of 18 April 2006 adapting Regulation (EC) No 184/2005 of the European Parliament and of the Council through the updating of data requirements (*OJ L 106, 19.4.2006, p. 10*).

⁴ Commission Regulation (EC) No 1055/2008 of 27 October 2008 implementing Regulation (EC) No 184/2005 of the European Parliament and of the Council, as regards quality criteria and quality reporting for balance of payments statistics (*OJ L 283, 28.10.2008, p. 3*).

⁵ Commission Regulation (EC) No 707/2009 of 5 August 2009 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements (*OJ L 204, 6.8.2009, p. 3*).

These legal acts stipulate:

- the data format required and the procedure that the Member States must follow when sending data to Eurostat;
- when the Member States must deliver new data; and
- the timeline and quality criteria applicable to national quality reports.

The sixth edition of the International Monetary Fund's Balance of Payments Manual (BPM 6), published in 2009, provides a conceptual framework for use by IMF Member States when compiling balance of payments and international investment position statistics. It lays down uniform definitions and classifications designed to establish a common basis for collecting and compiling data on external developments and to enable data from different countries to be compared. At EU level, the requirements for balance of payments statistics are laid down in Regulation (EC) No 555/2012.

3. MAIN DATA SETS CONCERNED

Balance of payments statistics provide comprehensive information on transactions between the reporting economy and the rest of the world. Regulation (EC) No 184/2005 deals with the collection of the following five data sets:

- (1) monthly statistics on balance of payments;
- (2) quarterly statistics on balance of payments and international investment position;
- (3) annual statistics on international trade in services;
- (4) foreign direct investment transactions (including income);
- (5) foreign direct investment positions.

Eurostat collects data from the Member States for each of these data sets. They are used to produce EU aggregates that are published in Eurostat's online reference database, together with the data from individual Member States.

Monthly balance of payments data and the first quarterly advance indicators of balance of payments derived from monthly estimates are available 7 weeks after the end of the reference period. The first estimates of quarterly balance of payments/international investment position are released 14 weeks after the end of the reference period. The quarterly balance of payments contains a much broader range of information than the monthly advance estimates and is presented in greater detail. On the financial side, the fact that the balance of payments financial account, the investment income and the international investment position are compiled at the same time and in a consistent fashion improves the quality of their estimates and allows a more comprehensive analysis of cross-border relationships. The quarterly balance of payments/international investment position also includes a geographical breakdown of the main economic partners, notably the main developed and emerging economies.

⁶ Commission Regulation (EU) No 555/2012 of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions (OJ L 166, 27.6.2012, p. 22).

Eurostat also published more detailed annual statistics on international trade in services and foreign direct investment (FDI). Annual FDI data, which draw on firms' annual financial statements, provide more information than quarterly FDI data. This enables more information to be provided and more comprehensive quality checks to be conducted on FDI stocks, the different components of their variations, and FDI income. Annual data on international trade in services are broken down into a comprehensive list of service items, with a geographical breakdown of level Geo 5⁷. The Member States supply data 9 months after the end of the reference period, and Eurostat publishes them between 2 and 3 months later. Annual FDI statistics include data on flows and stocks, broken down by type of instrument, partner country and economic activity. Member States are also requested to provide separate FDI statistics for resident special purpose entities. Member States send Eurostat their data 9 months after the end of the reference period and Eurostat publishes the data some 3 months later after data validation and processing.

4. QUALITY OF THE STATISTICS PRODUCED

Under Article 4(2) of Regulation (EC) No 184/2005, Member States must provide the Commission with a report on the quality of the data supplied. Moreover, Article 4(4) states that the quality of the data sent to Eurostat is to be assessed on the basis of quality reports, with the assistance of the European Statistical System Committee. The analysis below refers to the results of the latest available quality reports issued by the Member States in 2016. Quality is assessed on the basis of the main criteria defined by Regulation (EC) No 1055/2008.

4.1. Methodological soundness dimension and statistical procedures

The methodological soundness dimension and statistical procedures, concepts, definitions and practices used to compile statistics on balance of payments, international trade in services and foreign direct investment are broadly in line with the principles and guidelines outlined in the BPM 6. They take account of the particular rules agreed at EU level on compiling euro area and EU aggregates.

4.2. Timeliness und punctuality

Data on monthly and quarterly balance of payments, the quarterly international investment position, foreign direct investment and annual statistics on the international trade in services, were provided far more punctually than for the previous quality report covering 2015. Four Member States supplied their data sets before or by the deadline.

4.3. Data availability

4.3.1. Completeness

Data completeness improved slightly compared with the previous quality report, the clearest improvements being in the quarterly balance of payments and foreign direct investment. All 28 Member States complied fully with the monthly and quarterly balance of payments and the quarterly international investment position for the reference months in 2016. Data on

⁷ Geographical breakdown level 5 includes the following countries or group of countries as laid down in "Table 6 Geographical breakdown" of Commission Regulation (EU) No 555/2012.

international trade in services were, on average, 98 % complete. The average completeness rate for the EU as a whole was estimated at 98 % for FDI flows and 99 % for FDI stocks.

4.3.2. Accessibility and clarity

A wide range of users are interested in data on the balance of payments, the international investment position, international trade in services and foreign direct investment. These data are used extensively in EU policymaking, in macroeconomic analysis by business and academic users, and by the general public.

In its public database, Eurostat publishes monthly and quarterly balance of payments, quarterly international investment positions and revaluations, annual statistics on the international trade in services, and foreign direct investment data. Data are also available on national websites, accompanied by the relevant metadata. However, there are some limitations arising from national policies on the dissemination of these data.

The amount of data made available to final users is satisfactory; 18 Member States allow 100 % of the main items in the quarterly balance of payments to be published. However, some countries continue to flag their national data as ‘non-publishable’ or ‘confidential’ to an excessive extent, in some cases because of quality reservations. This limits the value of the statistical information provided regularly to users. Moreover, it hinders appropriate policy analysis based on EU-wide statistics. Use of ‘confidential’ flagging has increased owing to the finer level of detail, particularly in annual data, that has followed EU-wide implementation of the BPM 6.

4.4. Accuracy and reliability

In the goods, services and secondary income accounts, relatively small revisions were recorded for both the monthly and the quarterly balance of payments. There were more revisions of the primary income account than in previous reporting periods, mainly due to income from direct investment. This is partly because information on direct investment and its income components is more complete on an annual basis when companies’ annual financial statements become available. Mean values of revisions were generally higher for financial account items than for current account items, while revisions affecting main international investment position items were much less significant than for balance of payments.

4.5. Internal consistency

Overall, consistency with integrity rules is satisfactory. There are almost no discrepancies in quarterly and annual data on international trade in services and foreign direct investment. The Member States have made significant efforts to reduce errors and omissions, resulting in fewer errors and omissions relating to the current account and the international investment position. However, substantial errors and omissions remain in some other areas.

4.6. External consistency

Across the EU, balance of payments data and statistics on the international trade in goods remain generally very consistent. Discrepancies are usually explainable by methodological differences which are justified according to the methodological standards applied. For a

number of Member States, the current account of the balance of payments was entirely or highly consistent with national accounts, while other countries showed disparities between the two, sometimes substantial ones.

4.7. Asymmetries

Asymmetries within the EU remain an issue. Asymmetries in the components of the current account are fairly stable over time, but have even increased slightly for direct investment flows. The recently created Eurostat Task Force on Services by Modes of Supply might over time generate additional insights on the sectors/Modes of Supply that generate errors and inconsistencies.

5. BENEFITS FOR USERS AND RELEVANCE OF BALANCE OF PAYMENTS STATISTICS

Regulation (EC) No 184/2005 is a response to the needs of data users.

Balance of payments statistics are used intensively in policymaking by the relevant national and international institutions, including the Commission, the Council, the European Central Bank, the IMF, the Bank for International Settlements, the OECD, the G7 and the G20.

Balance of payments and international investment position statistics are used in monetary policy. In combination with other indicators, statistics on the exchange of goods and services are used to assess the inflationary pressures of external demand on the economies concerned and to quantify the contribution made by net exports to gross domestic product. Data on the balance of payments and the international investment position are used to assess the sustainability of the external balance of national economies (both those with their own currency and those belonging to a currency union such as the euro area) and the pressures that may be exerted on the exchange rate. Data on the balance of payments and the international investment position are used extensively in the Macroeconomic Imbalances Procedure.

Balance of payments statistics are also included in the convergence reports drawn up and published by the Commission and the European Central Bank on individual Member States that do not yet participate in the economic and monetary union.

Articles 143 and 144 of the Treaty on the Functioning of the European Union refer explicitly to the balance of payments. They require the Commission to keep the Council regularly informed of developments in the balance of payments situation in Member States not participating in the economic and monetary union.

Current account developments in individual Member States are analysed in relation to each country's competitiveness, while direct and portfolio investment statistics are used to analyse Member States' attractiveness to international investors.

Balance of payments statistics should be consistent with other key statistics collected in related statistical domains with EU relevance, such as:

- (1) gross domestic product (incorporating cross-border transactions in goods and services) including flash estimates, for which monthly balance of payments indicators are needed;

- (2) gross national income (incorporating cross-border transactions in goods and services, and income);
- (3) the rest of the world account in the EU and in the euro area quarterly sector accounts, including financial accounts.

Apart from the main aggregates, specific items have particular relevance for some users:

- detailed information on international trade in services published annually by Eurostat is important for trade negotiations and defining customs policies;
- the geographical breakdown of balance of payments statistics helps in monitoring interactions between the Member States and other countries;
- the composition of financial flows and stocks (in terms of direct investment, portfolio and other investment) is valuable for assessing financial stability;
- detailed information on FDI flows is important to measure the degree of openness of certain markets, or to assess the overall profitability of direct investment capital invested.

The Balance of Payments Working Group acknowledges that the implementation of Regulation (EC) No 184/2005 has triggered several improvements in balance of payments statistics. To gauge how this implementation has benefited national data compilers and users, the Working Group was asked to allocate scores in the range 1-5. A score of 1 means that Regulation (EC) No 184/2005 has brought very few benefits, while a score of 5 means it has brought maximum benefits.

- The average score for availability to data users of more detailed data on balance of payments, international trade in services and foreign direct investment is 4.0.
- The average score for availability to data users of more timely and punctual data on balance of payments, international trade in services and foreign direct investment is 3.9.
- The average score for improved consistency between balance of payments data and national accounts data is 4.0.

It was further noted that the methodological changes and new standards of the BPM 6 introduced in 2014 by Commission Regulation (EU) No 555/2012, together with the increased attention paid to international investment position data, brought clarity and important additional information to users of statistical data involved in macroeconomic policymaking and economic research. Another acknowledged benefit is that Regulation (EC) No 184/2005 has improved the comparability and consistency of the data across Member States.

6. COSTS AND BURDEN OF BALANCE OF PAYMENTS STATISTICS

National compilers have stated that they use data from primary statistics to compile statistics on balance of payments, international trade in services, and foreign direct investment. They draw on a range of sources of primary statistics, including customs data, data from the survey on intra-Union trade in goods, data from business registers, tax administration, real estate data and tourism statistics. It is hard for Member States to disentangle the specific costs of collecting and producing the data required by Regulation (EC) No 184/2005 from the total cost incurred in collecting data for other purposes.

The Balance of Payments Working Group estimates the direct labour input required to produce and disseminate balance of payments statistics in the EU at approximately 772 full-time equivalents (based on 24 Member States⁸). These resources are spread across the various balance of payments domains. The data set which absorbs most input is the quarterly balance of payments, which takes 48.1 % of resources. This is followed by statistics on the monthly balance of payments (20.2 %), foreign direct investment (16.1 %) and international trade in services (15.7 %).

The Member States estimate that any savings attributable to the fact that no data were sent to Eurostat before the adoption of Regulation (EC) No 184/2005 account for 10.4 % of the full-time equivalents. Balance of payments data are needed for national purposes too, and the Member States were already collecting them before the Regulation was adopted. This means that only limited additional resources are required to comply with its requirements. It should also be borne in mind that there is a significant overlap between the requirements of Regulation (EC) No 184/2005 and requests for data made by other national and international organisations, particularly the European Central Bank and the IMF. Data produced by Member States for the specific purposes of Regulation (EC) No 184/2005 are indistinguishable from those produced in compliance with other data requirements.

Member States have very little information about the burden on respondents created by the need to collect data on balance of payments, international trade in services and foreign direct investment, and what they have does not allow any estimates to be made.

7. AREAS FOR POSSIBLE IMPROVEMENTS AND AMENDMENTS

Article 5(3) of Regulation (EC) No 184/2005 states that by 20 July 2018 the Commission (Eurostat) is to institute pilot studies conducted by the Member States, relating to annual foreign direct investment statistics based on the ultimate ownership concept and foreign direct investment statistics that distinguish greenfield foreign direct investment transactions from takeovers. The purpose of these studies is to establish the conditions, including the methodological framework, under which these new data collections are to be introduced; to assess their costs and the statistical quality, and to enable Eurostat to compare data collections among countries.

Secondly, by 20 July 2019, the Commission (Eurostat) must draw up a report on the findings of these studies, send it to the European Parliament and the Council and, if appropriate, identify the remaining conditions to be met to develop the methodology for these data collections. 12 months after issuing this report, depending on the assessment of the results of the pilot studies, the Commission must make a proposal to amend Regulation (EC) No 184/2005 in order to define the methodological and data requirements for annual foreign direct investment statistics on the ultimate ownership concept and for annual foreign direct investment statistics distinguishing greenfield foreign direct investment transactions from takeovers.

⁸ Eurostat launched a general consultation from 6 July 2017 until 4 August 2017 on the draft of this Report. 24 Member States responded to Eurostat's questionnaire.

The Balance of Payments Working Group takes the view that the data requirements based on Regulation (EC) No 184/2008 should preferably remain stable over a reasonable period of time so that the remaining quality issues can be tackled and the quality of the statistics improved further. The outstanding quality issues are those referred to in the annual quality reports on balance of payments, international investment position, international trade in services and foreign direct investment statistics (available on the Eurostat website).

The Working Group also prioritises quarterly balance of payments statistics over monthly data. The quarterly balance of payments provides finer detail and higher quality (e.g. international trade in services, foreign direct investment equity, investment income, compensation of employees) than monthly balance of payments statistics. The Working Group therefore would prefer that monthly data requirements be simplified, if this is considered appropriate.

8. CONCLUSIONS

Regulation (EC) No 184/2005 has helped to further harmonise EU-wide statistics on balance of payments, international investment position, international trade in services and foreign direct investment. It has also helped ensure that data are available at the appropriate time and that users have access to more detailed data. Data quality is closely monitored on the basis of quality criteria which are harmonised across the various statistical domains concerned. This has helped to improve the consistency of quality assessment between the various statistical areas.

The findings of this report will be considered when the Commission, where appropriate, makes a proposal for amendments of Regulation (EC) No 184/2005 as referred to in point 7 above.

If requirements in some areas were to be made more stringent, data requirements in other areas or on other aspects could be simplified in order to avoid cost increases. This applies particularly to monthly data requirements.