

**Fifteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Canberra, Australia, October 21–25, 2002**

Evolution of the Intra-EU Asymmetries in the Current Account

Prepared by Eurostat



EVOLUTION OF THE INTRA-EU ASYMMETRIES IN THE CURRENT ACCOUNT¹

INTRODUCTION

In the recent years, the intra-EU asymmetries of *Current account* have become a source of great concern due to its size and continuity. Discrepancies identified in the bilateral balances of payments hamper the compilation of the b.o.p. for the European Union which is currently calculated by consolidating the individual b.o.p. statements of the member states.

In principle, EU “world” balance and “extra-EU” balance should be equivalent, since the sum of “intra-EU” balances for all member states should be equal to zero². Actually, this is not the case and intra-EU asymmetries introduce a bias that implies inconsistency between the EU “world” and “extra-EU” balances. Currently, Eurostat compiles the EU b.o.p. as the sum of “extra-EU” balances for all the member states: the aggregates for the EU15 are compiled consistently on the basis of member states' transactions with residents of countries outside the European Union.

MAIN FEATURES

The intra-EU asymmetries of the *Current account* became increasingly important since the beginning of the 90's. In 2000, these asymmetries reached Euro 68 Bn, equivalent to 0.8% of the EU-15 GDP:

Mio Euro	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current account asymmetries (intra-EU15)	-17 295	11 151	9 342	22 022	35 727	50 276	64 138	43 740	67 973
in % of GDP (EU15)	-0.29%	0.18%	0.15%	0.33%	0.52%	0.69%	0.84%	0.55%	0.80%

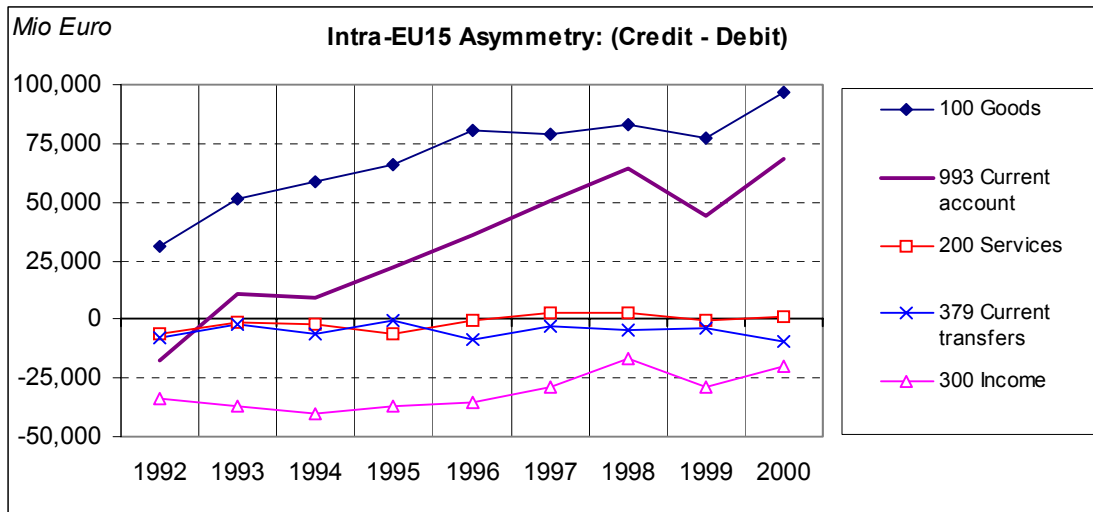
Source: NewCronos database (Eurostat), June 2002

During the recent years, the situation concerning intra-EU asymmetries has been extensively analysed and reported by Eurostat (in collaboration with European Central Bank and member states): Ad Hoc Committee on Asymmetries, Technical Group (TG) on Asymmetries, and TGs on Travel and Transport.

¹ This paper was drafted by Mehran Kafai for Eurostat in co-ordination with Elena Caprioli (Eurostat, Unit B5).

² $EU_{World} = \sum_{MS} (World_{MS}) = \sum_{MS} (extra-EU_{MS}) + \sum_{MS} (intra-EU_{MS})$
 $EU_{Extra} = \sum_{MS} (extra-EU_{MS}) = \sum_{MS} (World_{MS}) - \sum_{MS} (intra-EU_{MS})$
In principle, if $[\sum_{MS} (intra-EU_{MS}) = 0] \Rightarrow EU_{World} = EU_{Extra}$

The major components of the *Current account* involved with the asymmetries are the *Goods* and *Income* items. As can be seen in the following chart, the asymmetry for the *Goods* item deteriorated since 1993³, with the exception that between 1996 and 1999 a relative stability was observed. Overall, the asymmetry increased from Euro +31 Bn in 1993 to Euro +97 Bn in 2000. Concerning the *Income* item, the asymmetry was always negative and lower in absolute value, than the asymmetry for *Goods* item. It represented Euro –34 Bn in 1993 against Euro –20 Bn in 2000:



Source: NewCronos database (Eurostat), June 2002

Goods statistics are based on the external trade statistics compiled by Member states. The intra-EU trade statistics are produced from data collected through Intrastat system where the coverage is less exhaustive than that of a customs-based system. Since the introduction of Intrastat in 1993, the intra-EU imports (*Arrivals*) has been on average around 5% below the value of intra-EU exports (*Dispatches*), indicating a substantial under-reporting of intra-EU imports and which causes an asymmetry in the trade balance. An analysis of the intra-EU trade statistics discrepancies and the reconciliation method applied are presented in the Part II of the document.

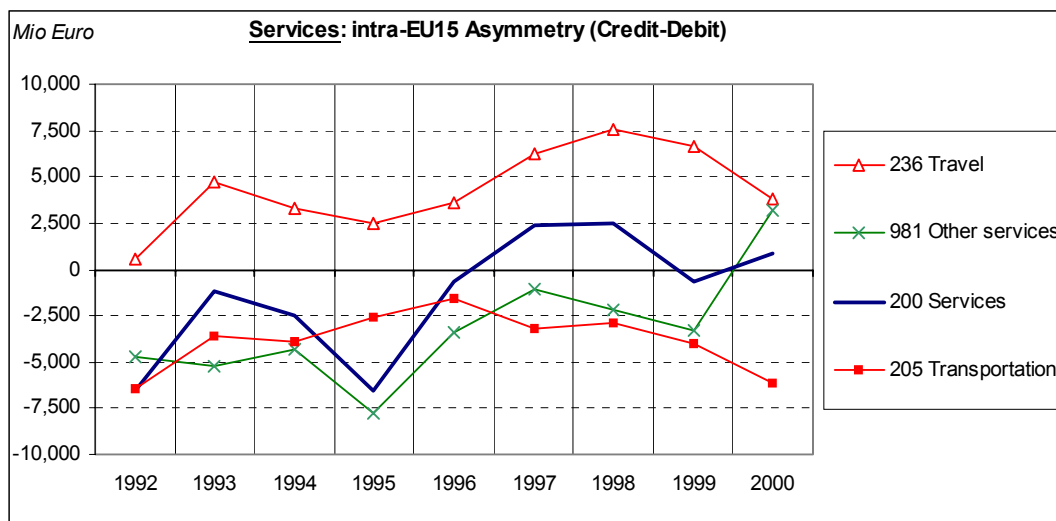
The use of Goods statistics in the b.o.p. implies to evaluate the imports (originally CIF based) in FOB resulting in an adjusted imports value lower than the imports statistics published (in CIF) by Member states⁴. In the case of intra-EU *Goods* item, the adjustment from CIF to FOB worsen hence the existing intra-EU discrepancies of the trade balance: the intra-EU imports figures that were already lower than the intra-EU exports, become lower due to the “CIF to FOB” adjustment which increases even more the gap between the two figures.

³ Due to a reported *Dispatches* (intra-EU exports) higher than reported *Arrivals* (intra-EU imports).

⁴ CIF (cost, insurance, freight) value = FOB (free on board) value of the exported merchandise + Freight and insurance costs related to its shipment.

As the merchandise trade statistics represent a significant component of the Current Account in the b.o.p., the evolution of intra-EU statistics discrepancies has affected the overall intra-EU asymmetries of the balance of payments statistics. However, it is also worth to mention that factors other than Intrastat may also contribute to the discrepancies of the intra-EU asymmetries. Some studies⁵ have indicated that the use of trade figures not only has an impact on the balances of the *Goods* item and on the geographical allocation, but may also result in double counting of goods and services .

Concerning the intra-EU Services item, although it seems relatively balanced at “total” level, the situation is much different when it comes to a lower level of aggregation for this *item*. The following chart presents the evolution of the asymmetry for the main



components of *Services* item:

Source: NewCronos database (Eurostat), June 2002

ACTIVITIES AT THE EUROPEAN LEVEL

The Eurostat's *Asymmetries Ad-hoc Committee* under the coordination of the *Committee on Monetary, Financial and Balance of payments statistics* (CMFB) and with the participation of the ECB undertook some actions in order to identify, to propose and to apply adequate solutions. Two approaches were retained:

- Bottom-up:

this approach consists of bilaterally analysing the differences between the member states so that the asymmetries can be solved at source through agreement on general rules that are complied with by each member state (so that asymmetries are avoided in future). Member states try to assess and improve the quality of their balance of payments statistics by conducting bilateral comparisons that may lead to identify areas where there is still a need to harmonise concepts, definitions, and compilation methods. In addition, reporting gaps and weaknesses of the different reporting systems may be detected and may contribute to the debate on devising a future European data collection system.

⁵ Irving Fisher Committee on Central-Bank statistics, IFC bulletin, No 10, October 2001, "Integration of the trade statistics in the balance of payments of the Belgian-Luxembourg Economic Union and the current account of Belgium", by Guido Melis (National Bank of Belgium), pp 65-67.

This approach is gradual and requires a significant investment in time and resources. The main advantage is that the results affect and improve directly the quality of national b.o.p. statements. It has already contributed to improve the comparability for “travel” and “compensation of employees” items through bilateral/multilateral studies undertaken between member states;

- Top-down:

with the top-down approach asymmetries are eliminated on the basis of a model, i.e. starting from a number of mathematical rules and specific assumptions ; Among the models being developed, the b.o.p. Global Method is the one providing best results. The model is based on a probabilistic approach and is using qualitative information. It uses intra- and extra-EU⁶ data and the outputs are “asymmetry free” intra-EU and adjusted extra-EU b.o.p. figures. The model is applied to the whole of the balance of payments and takes into account three asymmetry factors, namely the “geographical” dimension, the “classification” dimension and the “over- or under-estimation of the values”. It runs a minimisation equation under constraint to estimate for each item the three variables.

CONCLUSION

The analysis of the asymmetries in the Balance of Payments of the European Union region has been the object of thorough investigations in the last years. The studies on the total EU asymmetries and the comparison of bilateral data will continue and the results of the present document will be updated in November 2002, when the detail data for Trade in Services for year 2001 will be available. Meanwhile before the end of the year Eurostat will publish an article on the top-down approach (modelling) used to produce asymmetry-free data for the European aggregate in the domain of Balance of Payments statistics and Trade in Goods.

⁶ Including “world not allocated”.