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RECONCILING BALANCE OF PAYMENTS AND FOREIGN TRADE STATISTICS : FROM THE ANALYSIS TO THE ACTION

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RECONCILING BALANCE OF PAYMENTS AND FOREIGN TRADE STATISTICS: FROM THE ANALYSIS TO THE ACTION

Introduction

Eurostat has been investigating the issue of the discrepancies between BoP and FTS for a while and now intends to move towards actions which could possibly reduce these discrepancies.

In March 2005 Eurostat's BoP Working Group discussed the document attached (BP/05/26) and decided to activate a new Task Force which should define possible ways to improve the coherence between BOP and FTS.

The same document has been discussed in the meeting of the Committee on statistics relating to the trading of goods between Member States and with non-member countries, 15 and 16 June 2005, which has also expressed his support for the initiative.

The mandate and the composition of this Task Force will be discussed during next BoP Working Group, 13 and 14 October 2005 and then in the Committee on statistics relating to the trading of goods, in November 2005.

The Task Force Reconciliation between Balance of Payments and Foreign Trade Statistics could have the following tasks:

1) To analyse the reconciliation tables already compiled by some countries, to define a common standard table and to identify the most appropriate periodicity for reporting.

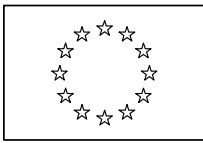
3) To analyse the available studies on the CIF-FOB adjustment and to produce recommendations about the best practices.

4) To analyse national current practices in the various other adjustments from FTS to BoP and produce a set of recommendations on acceptable and non-acceptable practices.

5) To identify possible ways to foster co-operation between BoP and FTS compilers at country level.

In this Task Force, the participation of experts from both BoP and FTS of the same country is expected.

Also the ECB's DG-Statistics will participate in this Task Force: the ECB has in fact constantly supported efforts to monitor the link between BoP and FTS data. Users consider BoP data better fitting for macro-economic analysis, in particular thanks to its coherent frame to measure trade in goods and services and its links with quarterly sector accounts, but find some important breakdowns only in FTS data, e.g. volume/unit values or commodity breakdowns. The use of FTS data would be facilitated if their developments were consistent with those in BoP data; for this reason adjustments made should be accurate and appropriately documented.



EUROPEAN COMMISSION
EUROSTAT

Directorate C: Economic and monetary statistics
Unit C-4: Balance of payments



1 March 2005

BP/05/26

BALANCE OF PAYMENTS WORKING GROUP

17 – 18 MARCH 2005

Quetelet Room, BECH Building

Kirchberg, Luxembourg

Starting: 17 March at 9:30 a.m.

Ending: 18 March at 4:00 p.m.

Reconciliation between Balance of Payments and Foreign Trade Statistics Towards an Action Plan *

* Website : <http://forum.europa.eu.int/Members/irc/dsis/bop/home>

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Reconciliation between Balance of Payments and Foreign Trade Statistics: from the analysis to an Action Plan

Summary and request to the members of BoP Working Group

Eurostat has been investigating the issue of the discrepancies between BoP and FTS for a while.

So as to move from the analysis of the discrepancies towards concrete actions, the Members of the BoP WG are asked for their opinion on the following points:

- The compilation of reconciliation tables on annual basis;*
- The proposal to create a Task Force “Reconciliation BoP-FTS”;*
- The need to prepare and implement an Action Plan in Member States, especially with regards to CIF/FOB adjustment;*
- The possible ways to foster co-operation between BoP and FTS compilers at country level.*

Both Balance of payments (BoP) and Foreign Trade Statistics (FTS) produce data for international trade in goods. A close look at the data in Table 3 will quickly reveal that the figures available from these two data sources are different, sometimes so different as to show balances of opposite sign.

Following the work done by the Asymmetries ad hoc Committee, Eurostat (re)started to investigate this issue in November 2003, when 3 questionnaires (2 for BoP compilers and 1 for FTS compilers) were sent to the then 15 Member States¹. The questionnaires were also sent to the 10 new Member States and the 3 candidate countries in March 2004.

1. The Working Paper for non-specialist users

In August 2004 Eurostat published the Working Paper Differences between Balance of Payments and Foreign Trade Statistics (see document BP/05/26a).

This Working Paper is aimed at non-specialists users of BoP and FTS data, those that could be puzzled when realising that for the same period, reporter and partner country, the figures provided for the item “Goods” by EU Balance of payments and by EU FTS are not the same.

This Working Paper helps to understand the main reasons of the differences between the two data sets and highlights the different practices followed by the Member States to adjust FTS to the needs of BoP.

The conclusion of this Working Paper is that some differences between the value of trade in goods shown by FTS and BoP are unavoidable, because they are linked to some differences in the concepts and methodology applied, but that **the adjustment practices followed by the Member**

¹ This part of the investigation (and only this part) was carried out under an external contract with the consultant “Gruppo Class” financed and managed by Eurostat’s unit in charge of Foreign Trade, Unit F2. See the document BP/04/22 presented during March 2004 BOP Working Group.

States are very heterogeneous and would need harmonisation. This is evident looking at table 1.

A vertical reading of Table 1 allows to identify the items for which practices are more coherent between responding countries. The item 12. “Goods procured in ports by carriers”, seems to be the one for which almost all countries produce an adjustment, and in the same direction, followed by item 6. “Goods not crossing the border”, 5. “Repairs of goods”, 4. “Goods for processing”, 8. “Returned goods”. On the other hand, the horizontal reading of Table 1 allows to identify the Member States that perform the biggest number of adjustments concerning the 17 items under consideration. It can be noticed that Germany is the country that produces adjustments for most of the items, followed by the UK, the Netherlands, Belgium, etc.

The coverage of transactions in goods assured by Foreign Trade Statistics may differ across Member States, according to national concepts, this can explain in part the heterogeneous practices followed.

Table 1. Other adjustments on imports and exports - main deductions or additions from FTS to BoP.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
AT						+/+							+/+				
BE				+/+	+/+			-/-				+/+	+/+				
DE		/+	+/+	+/+	/+	+/+		-/-		/-	+/+	+/+		-/-		+/	
DK					+/+	+/+		-/-				+/+					
GR																	
ES						+/+						+/					
FI								/+				+/+					/+
FR				+/+	+/+							+/+					
IE																	
IT				+/+	+/+	+/+						+/+	+/+				
LU					-/-	+/+	-/-					+/+	+/+				
NL				-/-	+/+	+/+		-/-				+/+					
PT	+/+					+/+			+/+			+/		+/+			
SE												+/+					
UK	-/-		/+				-/-					+/+	+/+		+/+		
BG																	
CY					+/+							+/					
CZ																	
EE		/+			+/+							+/+					
HU		/+			+/+							+/+					
LT																	
LV		+/+	+/	/+	+/+						+/	+/+	+/+				
MT			+/+		+/+		-/-	-/-		+/+	+/+	+/					
PL					+/+												
RO																	
SI					+/+												
SK																	
TR										/+			-/-				

Reading note for Table 1: +/+ means that the item is added to import and export flows; -/ means that the item is deducted from import flows only; the same logic applies to the other signs used.

The items are: 1. Non response/below threshold; 2. Sea products; 3. Goods dispatched through postal or courier services; 4. Goods for processing; 5. Repairs of goods; 6. Goods not crossing the border; 7. Goods not changing ownership; 8. Returned goods; 9. Goods traded on government account; 10. Exports/Imports by private individuals; 11. Transaction in goods in free areas; 12. Goods procured in ports by carriers; 13. Non monetary gold; 14. Electricity, gas and water; 15. Additions and alterations to ships and aircrafts; 16. Books and periodicals; 17. Corrections for timing.

Period: 1999-2001, 2002 for Cyprus and Luxembourg.

Table 2 - EU 25 CIF/FOB adjustment practices

	Partner in EU15	Partner extra EU15	Notes
AT	2-3%	4-5%	Ratios from Table 35 (BP/05/26b). CIF/FOB adjustment is calculated by estimating freight costs using settlements. This calculation takes in account the partner country. <i>From 2006 a new CIF/FOB correction will be implemented by NSI.</i>
BE	No adjustment	No adjustment	No CIF/FOB adjustment, but a methodology is under construction which will be applied in 2004.
DE	0.6%	3.6%	Ratios from Table 35 (BP/05/26b).
DK	3.7%	3.7%	
GR	No adjustment	No adjustment	
ES	4.5%	4.5%	
FI	5.9%	5.9%	Ratios from Table 35 (BP/05/26b).
FR	0.05-1.84%	2.1-11.78%	Ratios from a document presented to TG Transport. From 2002 application of CIF/FOB ratios estimated using a survey about transportation costs for export and import companies. Sample chosen from customs reports about well identified transactions. <i>The survey is repeated every 2 years: the next is planned for 2005.</i>
IE	2%	4.8%	
IT	1.5-2.2%	6.1-7%	Ratios from Table 35 (BP/05/26b). CIF/FOB ratio different for different partners, 32 areas or countries are distinguished. The ratio is produced with a survey.
LU	Together with BE till 2001	Together with BE till 2001	Methodology used from 2003: CIF/FOB ratios different for specific regions and main modes of transport.
NL	0.5-0.6%	6-6.8%	Ratios from Table 35 (BP/05/26b). CIF/FOB ratio different for different partners, depending on distance and also taking into account economies of scale in transport, adjusted monthly to bring the evolution of the overall CIF/FOB margin in line with the evolution of the gross turnover of the freight transportation flows.
PT	4.7%	4.7%	
SE	1.4%	1.4%	Ratios from Table 35 (BP/05/26b).
UK	1.9-2.1%	3.1-3.5%	Ratios from Table 35 (BP/05/26b). CIF/FOB adjustment is calculated by estimation of freight services for imports arriving by sea, rail and air.
BG	8%	8%	For some imports FOB values available.
CY	10%	10%	
CZ	No need	No need	Fob data available
EE	5%	5%	Fixed rate applied only till 2002. From 2003 onwards different CIF/FOB ratios for each partner.
HU	2.66%	2.66%	
LT	5.6%	5.6%	
LV		4.2-4.6%	Ratio from Table 33 (BP/05/26b). CIF/FOB ratio different for different partners and mode of transport.
MT	10%	10%	Applied only to a minor part of imports. For most imports FOB values are available.
PL	2.5%	2.5%	
RO	7.7%	7.7%	
SI	3.93%	3.93%	
SK	No need	No need	FOB data available
TR	6%	6%	

The need to harmonise cif-fob adjustment practices is as well very strong, as it is clear from Table 2, where the cif-fob ratios currently used by countries are summarised. The information in this table is not the same that can be found in the Working Paper: information coming from the Tables 33 and 35 of the FTS-BoP Country Report (BP/05/26b), as well as information collected during the work of TG Transport (see doc BP/05/19) has been added, to make up for information on the ratios actually used by the Member States.

Eurostat's Unit in charge of FTS (F2) has confirmed its interest in the cif/fob adjustment because it plans to publish fob-fob EU FTS data as soon as relevant CIF/FOB adjustment ratios are available. For this reason F2 has financed, through Edicom funding, some very interesting pilot studies on the cif-fob adjustments in the Member States (AT October 2004, DK September 2003, FI September 2003, GR March 2004, IT November 2003, NL April 2003, SE 2003).

TG Transport has also experimented a method of producing cif-fob ratios at EU level using mirror information on the difference between statistical and invoice value (see document BP/05/19).

The analysis of the results produced by all these studies could allow drawing some best practices on cif-fob adjustment methods.

Also the ECB's DG-Statistics has constantly supported efforts to monitor the link between BoP and FTS data so as to support users in their effort to analyse the data. Users consider BoP data better fitting for macro-economic analysis, but find some important breakdowns only in FTS data, e.g. volume/unit values or commodity breakdowns. However, they can only use the latter data if the developments are consistent with those in BoP data; from this angle the adjustments made should be accurate and appropriately documented.

2. The Country report

The Working Paper Differences between Balance of Payments and Foreign Trade Statistics does not go in any detail about the differences between BoP and FTS observed in each country.

To go further in the analysis of the discrepancies between BoP and FTS Eurostat has also prepared a Country report which highlights, for each country, the points that, according to our desk study, appear to be problematic in the transition from FTS to BoP. This second document is intended only for internal use of BoP compilers.

A first draft of Differences between BOP and FTS – Country Report has been circulated to the 25 EU Member States at the end of August 2004. MS were asked to check carefully the information related to their country. Some countries (CY, DK, NL, PT, UK) have provided comments and asked for corrections which have been included in doc BP/05/26b.

We encourage each member of BoP WG to check further the information related to their country: this "Country report" could in fact be the basis for a future Action Plan.

If countries deem necessary further corrections to this Report, Eurostat can still take them on board.

We do not dare saying that it is a result of the steps that Eurostat C4 has already taken, but in the

first 3 quarters of 2004 the discrepancies between BoP and FTS for EU25 seem to be declining, as it can be observed in Table 3, where we also highlight the quarters when the two data sets showed a balance of a different sign.

Table 3
BoP and FTS value for Trade in Goods of EU25 with partner extra EU25 (million euro)

	BoP			FTS			BoP-FTS difference		
	Credit	Debit	Net	Exports	Imports	Net	Credit	Debit	Net
2001q01	216,779	240,935	-24,156	220,630	256,731	-36,101	-3,851	-15,796	11,945
2001q02	221,515	239,204	-17,692	226,731	255,699	-28,967	-5,216	-16,495	11,275
2001q03	213,208	222,338	-9,131	217,757	234,198	-16,441	-4,549	-11,860	7,310
2001q04	226,318	222,751	3,565	230,725	237,121	-6,396	-4,407	-14,370	9,961
2002q01	210,739	217,412	-6,671	214,524	231,501	-16,977	-3,785	-14,089	10,306
2002q02	227,049	225,820	1,230	231,903	241,949	-10,046	-4,854	-16,129	11,276
2002q03	222,009	216,647	5,363	224,783	227,589	-2,806	-2,774	-10,942	8,169
2002q04	229,750	227,618	2,133	232,350	241,587	-9,238	-2,600	-13,969	11,371
2003q01	210,966	224,444	-13,476	209,730	238,344	-28,615	1,236	-13,900	15,139
2003q02	215,407	217,763	-2,356	217,537	232,121	-14,584	-2,130	-14,358	12,228
2003q03	218,365	212,722	5,639	222,355	226,790	-4,435	-3,990	-14,068	10,074
2003q04	230,129	227,172	2,957	233,445	243,658	-10,214	-3,316	-16,486	13,171
2004q01	224,742	227,785	-3,042	222,198	239,729	-17,531	2,544	-11,944	14,489
2004q02	241,882	244,478	-2,594	244,425	256,759	-12,334	-2,543	-12,281	9,740
2004q03	239,654	248,354	-8,702	243,491	258,231	-14,740	-3,837	-9,877	6,038

Source: Eurostat's on-line database New Cronos. Tables: Economy and Finance/Balance of Payments – International Transactions/Balance of Payments statistics/European Union Balance of Payments (quarterly data); External Trade/ External Trade aggregated data/ External Trade short-term indicators/ Macro-economic series for the European Union with 25 Member States and the main commodities of the BEC nomenclature (monthly data).

3. What next?

Now it is time to move further, to go from the analysis of the discrepancies towards actions which could possibly reduce these discrepancies.

3.1 Regular compilation by each country of a Reconciliation Table

The most simple (and less resource intensive) initiative would be to ask Member States to compile every year the Reconciliation Tables between FTS and BoP.

These Reconciliation Tables could as well be considered part of the quality report which each Member State will have to prepare in the future, according to the new BoP Regulation.

BPM6 will very likely suggest that, “where published international merchandise trade statistics differ from estimates of general merchandise on a balance of payments basis, a reconciliation table be provided, so that the reasons are available to users. A sample reconciliation table is shown in Table 9.2 below (based on Appendix B in *BPM4*; a similar appendix is not included in *BPM5*). ... Compilers may not be able to publish fully such a table, particularly for short periods, because of confidential items.

Nevertheless, they should be able to prepare one internally, because it is simply a tabulation of adjustments already made”².

Table 9. 2. Reconciliation between Merchandise Trade Statistics and General Merchandise on a BOP Basis

	Exports	Imports
Merchandise trade as published		
Coverage adjustments (major factors specified)		
Classification adjustments (major factors specified)		
Timing adjustments (major factors specified)		
Valuation adjustments fob/cif adjustment for imports (other major factors specified)		
Other adjustments (major factors specified)		
General merchandise on a BOP basis		

3.2 Activate a new Task Force

A “Task Force Reconciliation BoP-FTS” could be activated to understand the discrepancies in the adjustments and define priority actions to improve the coherence between BOP and FTS.

This Task Force could also analyze all the studies produced on the CIF-FOB adjustment and produce recommendations about the best practices which should be adopted by all the EU Member States.

This “Task Force Reconciliation BoP-FTS” could include experts from Eurostat’s units BoP (C4) and FTS (F2), a representative of the ECB - DG-S/External Statistics Division, a limited number of representatives of the Member States coming both from FTS and from BOP.

² See *Revision of BPM5 – Annotated outline* – April 2004, p. 125, available at <http://www.imf.org/external/np/sta/bop/bopman5.htm>

If members of BoP WG agree with the idea of activating this TF, the mandate of the TF could be drafted in the next months by Eurostat's units C4 and F2 and then sent to the Member States for approval via written consultation.

The membership of this TG should be kept to an efficient size: including representatives from both BoP and FTS of three Member States would e.g. produce a TG of 6 + 2 (Eurostat) + 1 (ECB) = 9 Members.

3.3 Prepare Action Plans

According to results and recommendations provided by the Task Force, Eurostat could prepare National Action Plans, with clear indication of what each country should do to reduce these discrepancies: for each Member State the Action Plan would indicate which are the main deficiencies and where priority action is required.

The Country report (doc BP/05/26b) could be a useful input for the preparation of this Action Plan.

3.4 Promote better co-operation between BoP and FTS compilers

The tables from 7 to 32 in the Country Report (BP/05/26b) compare the treatment of special transactions made by compilers of FTS and BoP. The answers were collected with two separate questionnaires, one for FTS and one for BoP compilers.

Comparing the answers received by the two parts it is evident that sometimes there is a lack of co-ordination between FTS and BoP compilers of the same country.

Initiatives aimed at improving co-operation between BoP and FTS compilers at country level would very likely be useful for increasing the consistency between the two data sets.

But what sort of initiatives could be more beneficial and less resource intensive? This idea could be developed further by the "Task Force Reconciliation BoP-FTS".

The Members of BoP WG are asked to provide their opinion on the following points:

- ***The regular compilation of Reconciliation Tables on annual basis;***
- ***The proposal to create a joint Eurostat C4/F2 Task Force with the mandate to produce the Action Plan and recommendations for harmonised practices regarding the cif-fob adjustment;***
- ***The need to prepare an Action Plan for each country;***
- ***The possible ways to foster co-operation between BoP and FTS compilers at country level.***