



Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 17/2003

BALANCE OF PAYMENTS

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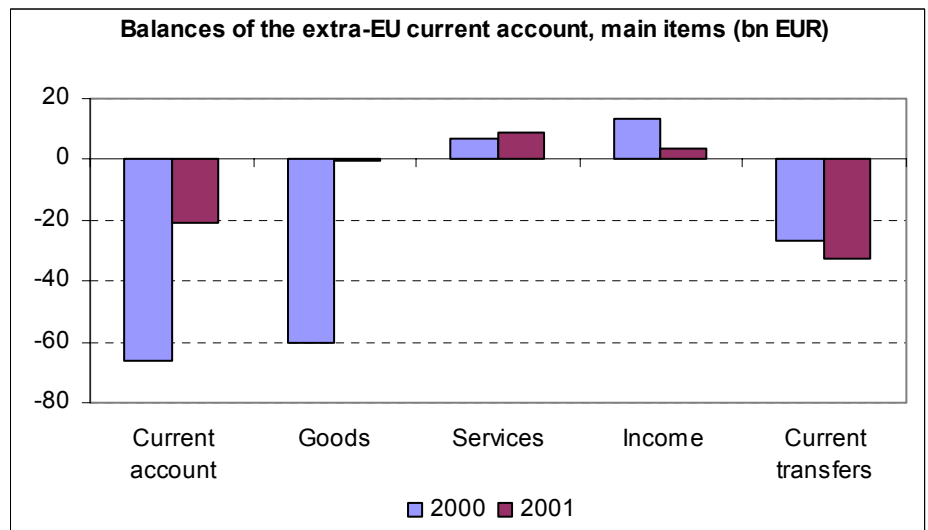


EU current account deficit decreased to EUR 20.5 bn

EU current transactions in 2001, detailed results¹

Luis Biedma

In 2001, the EU external current account balance experienced a marked recovery, reaching EUR -20.5 bn, after falling to a record low of EUR -66.5 bn in 2000. This recovery was largely due to the strong decrease in the goods deficit, from EUR 60.0 bn in 2000 to EUR 0.5 bn in 2001. The EU surplus in services grew slightly to EUR 9.0 bn. In contrast, the surplus in income fell to EUR 3.8 bn, while the EU structural deficit in current transfers widened to EUR 32.8 bn. At the same time, the EU current account surplus with the USA rose to EUR 56.7 bn in 2001, while the structural deficit in the current account with Japan decreased to EUR 30.8 bn.

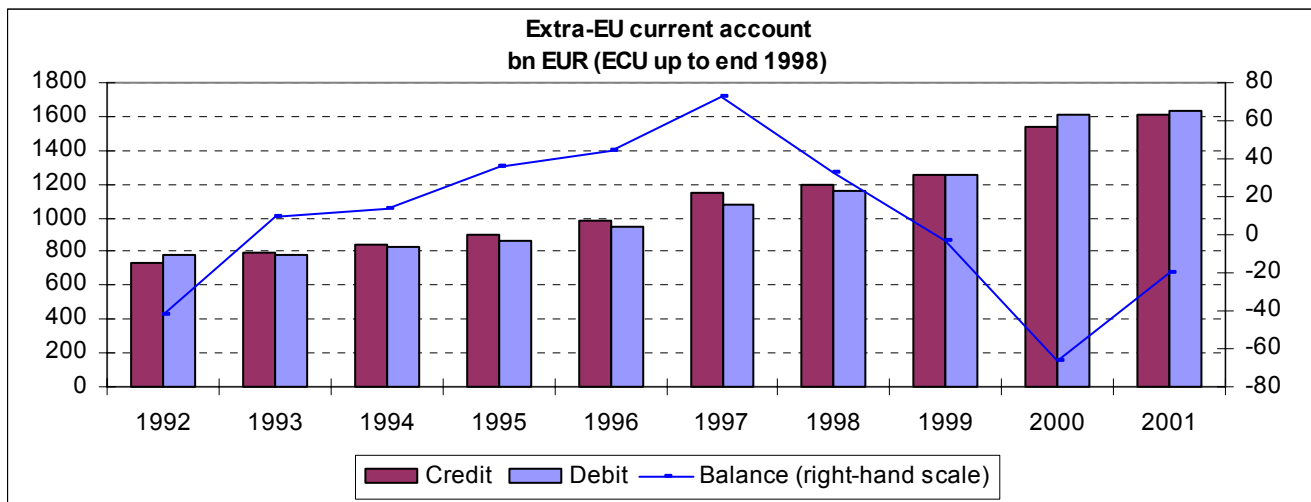


EU current account recovers at EUR -20.5 bn in 2001 after a record low in 2000

The EU current account balance with the rest of the world registered a deficit of EUR 20.5 bn (-0.2% of EU GDP) compared to a deficit of EUR 66.5 bn recorded in 2000 (-0.8% of EU GDP). This strong reduction was primarily due to a sizeable decrease in the goods² deficit, from EUR 60.0 bn in 2000 to EUR 0.5 bn, combined with a small rise in services surplus, from EUR 6.6 bn to EUR 9.0 bn in 2001. This improvement in the goods and services balance was partially offset by a reduction in the income surplus, from EUR 13.7 bn to EUR 3.8 bn and the rise in the current transfers deficit, from EUR 26.9 bn to EUR 32.9 bn.

¹ The contents of this Statistics in Focus will be further developed in the Eurostat publication 'EU International Transactions', 2003 edition.

² According to the Balance of Payments concept: (exports FOB – imports FOB).

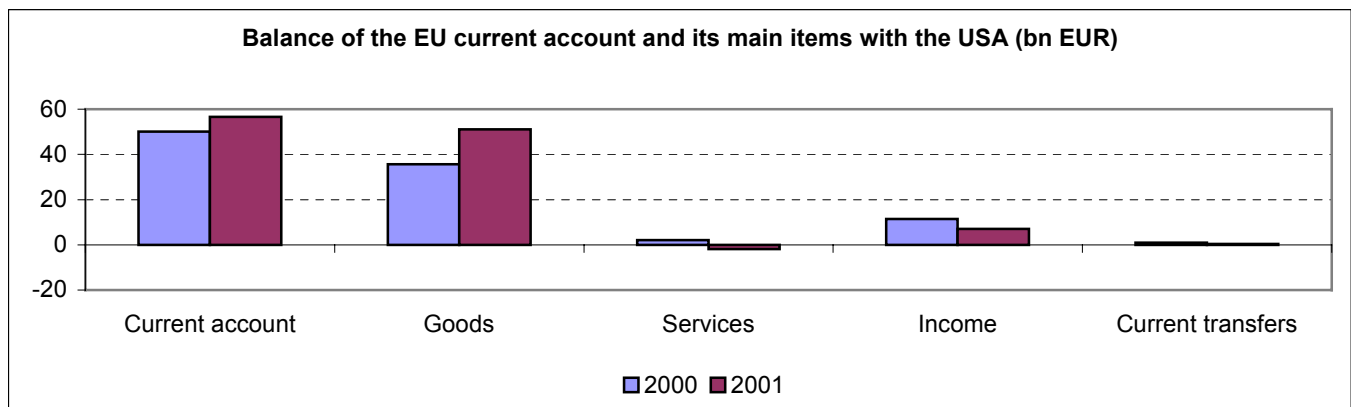


Total extra-EU current transactions were 3% higher in 2001 than in 2000. Credits increased to EUR 1614.8 bn in 2001 (+5% compared to 2000) while debits grew more sluggishly (+2%) to reach EUR 1635.2 bn. Total transactions in goods amounted to EUR 1920.0 bn, 2% higher than the previous year. Exports of goods rose by 6%, to EUR 959.8 bn while imports in goods declined by 1% to EUR 960.3 bn. EU exports and imports in services increased by 5% and 4%, respectively, making total transactions in services grow by 5% in 2001 to EUR 618.6 bn. Income credits rose by 0.5% while income debits showed an increase of 4%. Total income transactions amounted to EUR 605.1 bn. Finally, current transfers credits and debits grew by 11% and 17%, respectively, in 2001. Total current transfers transactions increased to EUR 106.3 bn in 2001.

Over the 1992-2001 period, EU total current transactions with the rest of the world expanded significantly. Both EU credit and debit transactions more than doubled during this decade. EU credits grew slightly more than EU debits, respectively 2.2 fold and 2.1 fold. The EU current account shifted into a deficit in 1999, after continuously rising to peak in 1997 at EUR 72.2 bn. The EU current balance deteriorated from 1998 to 2000. In 2001, the current account deficit decreased by EUR 46.0 bn to EUR 20.5 bn.

EU current account surplus with the USA peaked at EUR 56.7 bn in 2001

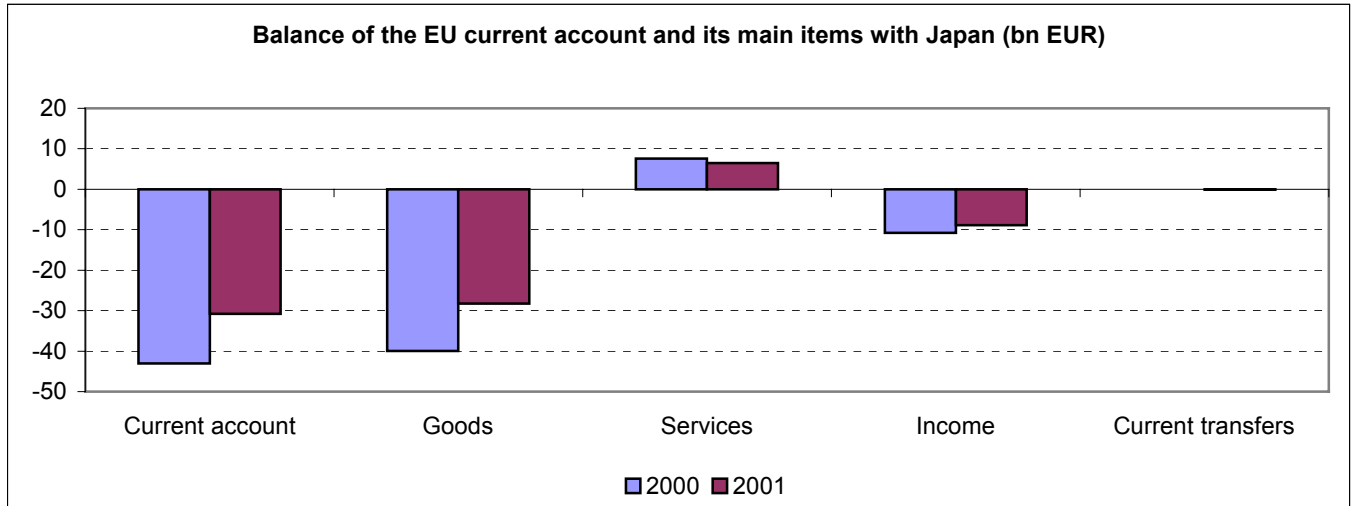
The EU current account with the USA registered a surplus of EUR 56.7 bn in 2001, EUR 6.6 bn higher compared to the surplus obtained in 2000. EU credit current transactions increased to EUR 492.6 bn (+2% compared to 2000) while EU debits grew moderately to EUR 435.9 bn (+1%). The higher EU surplus with the USA was mainly caused by the substantial rise in the EU surplus in goods to EUR 51.1 bn, EUR 15.5 bn higher than in 2000. The rise in the goods balance more than offset the negative results obtained in the other balances. In services, the balance turned into a deficit of EUR 1.9 bn from a surplus of EUR 2.1 bn. This deterioration was observed across all the main services components (*transportation, travel and other services*³). The EU surpluses with the USA in income and current transfers shrank by EUR 7.0 bn and EUR 0.4, respectively.



³ The item « other services » covers services other than transportation and travel. It includes communications services, construction services, insurance services, financial services, computer & information services, royalties and licence fees, other business services, personal, cultural & recreational services and government services n.i.e.

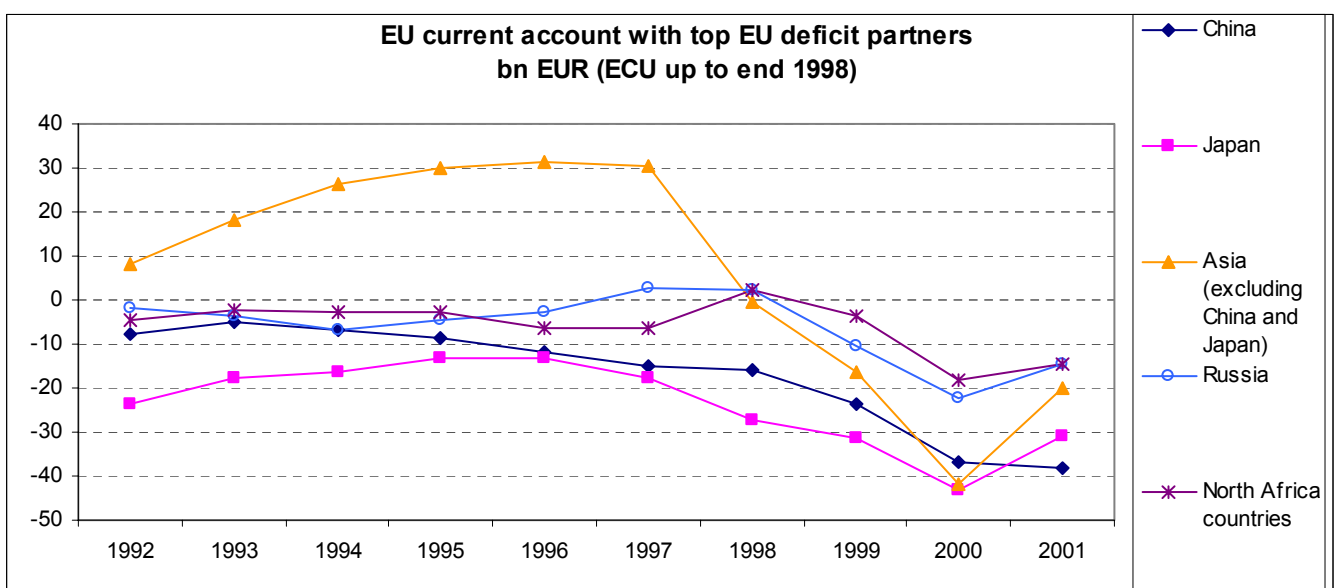
EU current deficit with Japan decreased to EUR 30.8 bn in 2001

In 2001, the structural deficit of the EU current account with Japan narrowed by EUR 12.3 bn and amounted to EUR 30.8 bn. The deficit in the balance of goods recorded a remarkable fall in 2001 to EUR 28.3 bn, EUR 11.7 bn smaller than in 2000. The EU surplus in services fell to EUR 6.5 bn in 2001 from EUR 7.6 bn in 2000, due to the combined effect of significantly higher imports from Japan (+7%) and a reduction in EU exports (-2%). Within services, the surplus in *transportation* increased while the surpluses in *travel* and *other services* were lower than in 2000. Regarding income, the EU balance with Japan settled with a EUR 8.9 bn deficit, EUR 1.8 bn lower than in 2000. The current transfers deficit marginally increased to EUR 82.7 Mio.

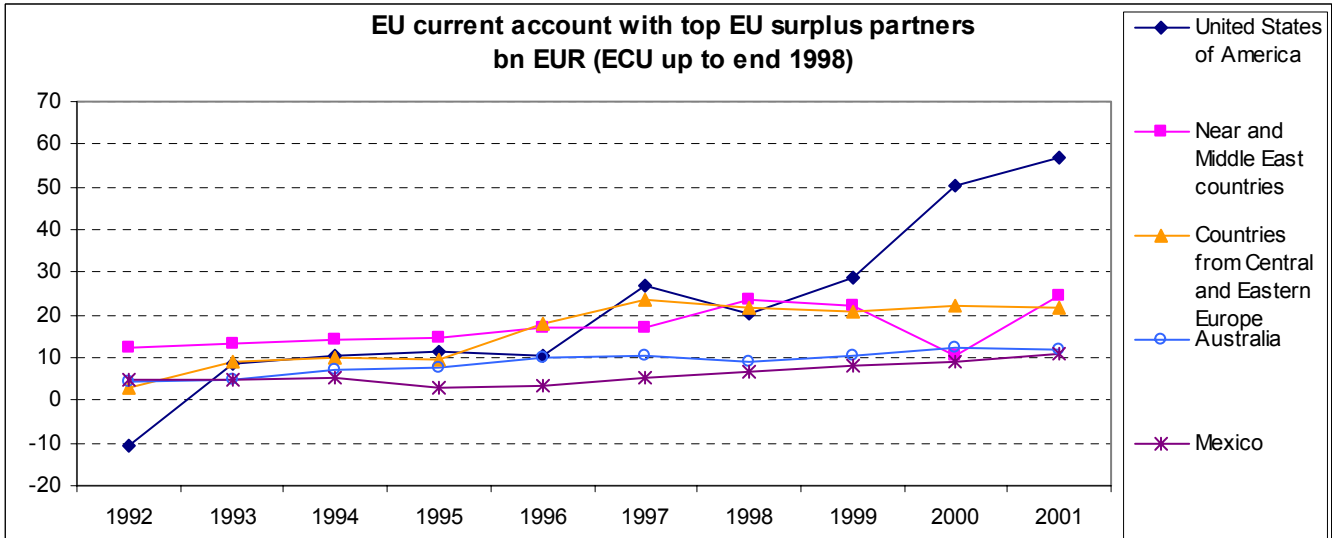


EU current account: geographical breakdown over the 1992-2001 period

The reduction in the EU 2001 current account deficit was broadly the result of two different sources. Firstly, bilateral deficits with partners, for which higher deficits were recorded in 2000, diminished in 2001. And secondly, the largest EU bilateral surpluses obtained in 2000 widened in 2001. Over the 1992-2001 period, the EU recorded a structural deficit with China and Japan as well as with countries that are net exporters of natural resources (especially oil), such as North African countries and Russia. On the other hand, the EU current deficit with Asia (excluding Japan and China) only started in 1997 with the Asian financial crisis, and improved markedly in 2001.



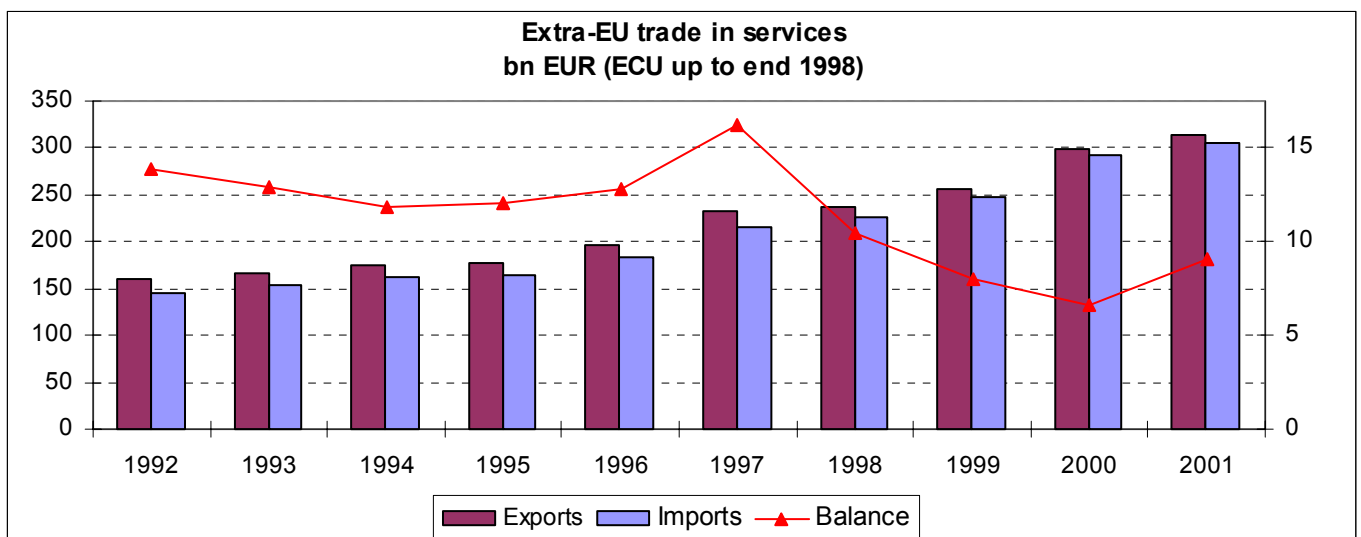
The largest EU surplus in the current account was achieved with the USA. In spite of slower economic growth in 2001 than in previous years, and the possible negative trade effects associated with the terrorism attacks of September 11, the USA's demand for European goods continued to be robust. On the other hand, the EU surplus with Near and Middle East countries (including Israel, Iran, Gulf Arabian Countries) more than doubled compared to 2000, reaching EUR 24.7 bn in 2001.



EU trade in services: slower growth in 2001

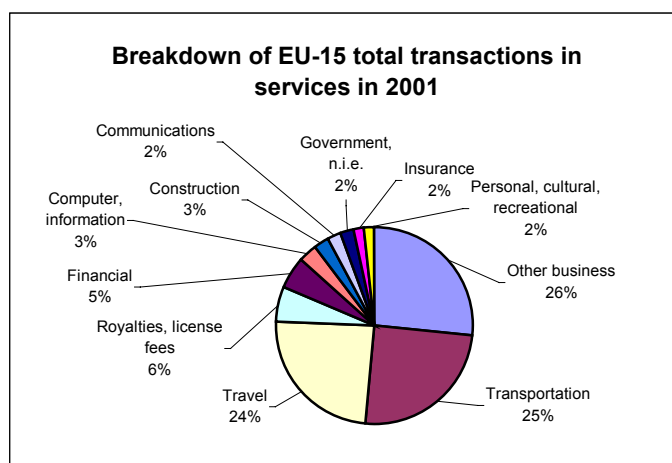
After a remarkable growth of 18% in 2000, trade in services grew by 5% in 2001, recording a value of EUR 618.6 bn. In 1992, extra-EU exchanges of services amounted to EUR 304.5 bn, approximately half the 2001 value. Exports increased more than imports in 2001, for the first time in four years, leading to a higher surplus. Thus, exports of services grew by 5% whereas imports rose by 4% amounting to EUR 313.8 bn and EUR 304.8 bn, respectively.

The EU surplus in trade in services reached EUR 9.0 bn in 2001, exceeding that registered in 2000 by EUR 2.4 bn. The growth of the services' surplus broke the trend begun in 1998, when the surplus started to shrink continuously, after reaching a record surplus of EUR 16.2 bn in 1997.



Composition of trade in services remained unchanged in 2001

No major changes were observed in the respective shares of the main categories of services in relation to the total. The leading subcomponents continued to be: *other business services* (26%), *transportation* (25%) and *travel* (24%) accounting for three quarters of EU total external transactions in services. Far behind came *royalties & license fees* (6%), *financial services* (5%), *computer and information services* and *construction services* (each 3%). Finally, services in *insurance*, *communication*, *government*, and *personal, cultural and recreational* stood steady at 2%.

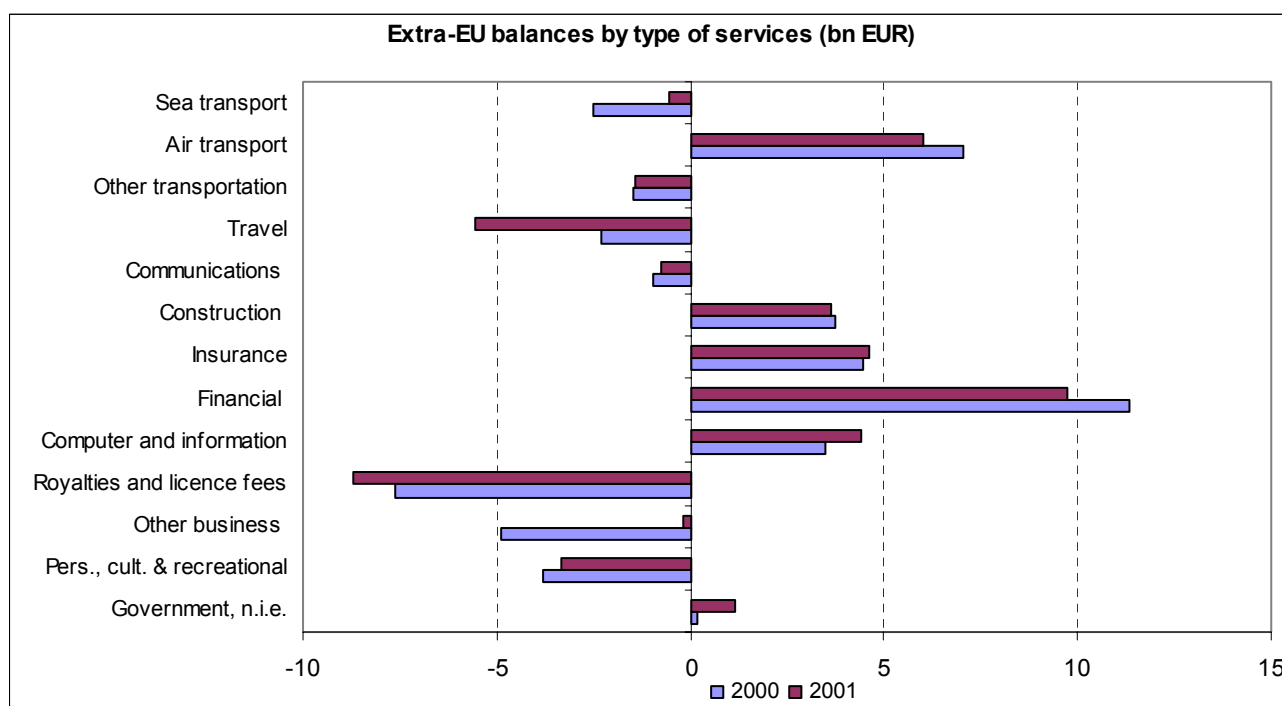


EU services in 2001: transactions in computer and information services grew by 18%

Despite the slower growth in trade in services, transactions in *computer and information services* grew strongly by 18% in 2001, nearly at the same pace as in 2000, when they expanded by 19%. In contrast, exchanges of *financial services* contracted by 2% in 2001, after increasing by 37% and 31% in 2000 and 1999, respectively. Imports and exports of *air transport* decreased by 1% and 4%, respectively.

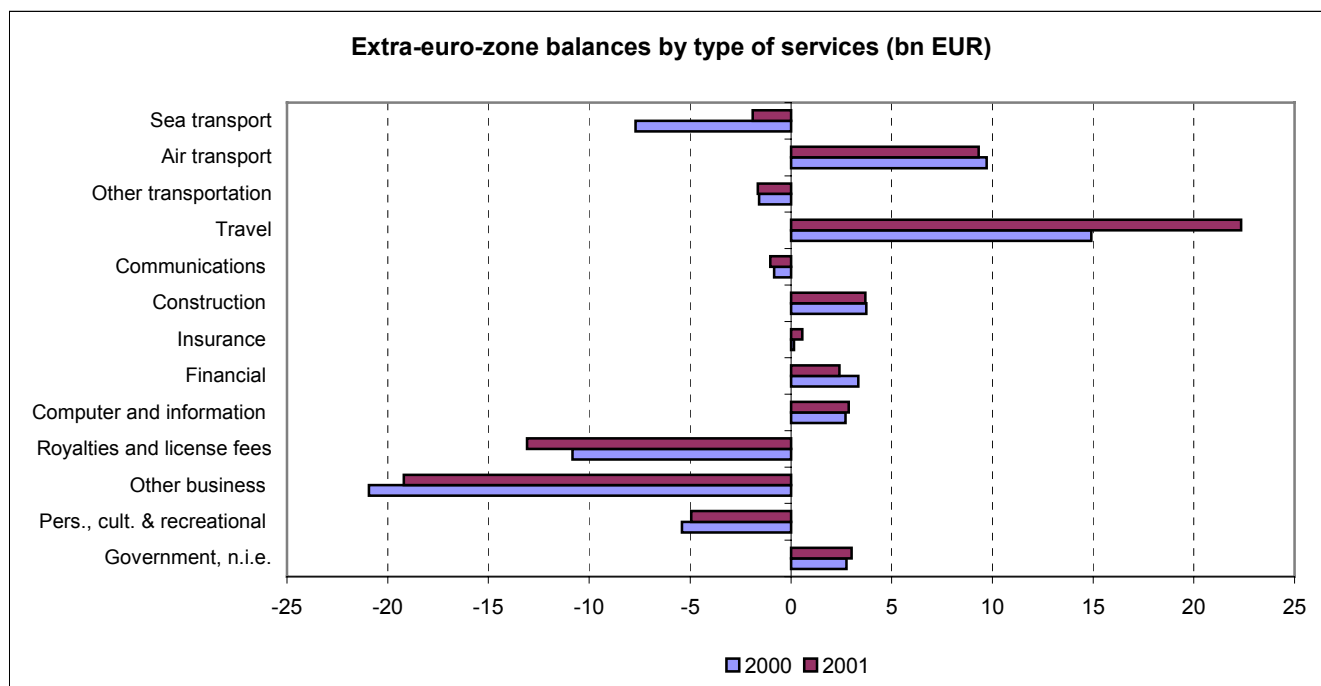
As in 2000, the main contribution to the EU surplus in the balance of services came from *financial services* with EUR 9.7 bn. This surplus was, however, EUR 1.6 bn lower than in 2000. *Air transport* also contributed significantly to the overall surplus in services with EUR 6.0 bn. Surpluses were also obtained in *construction* (EUR 3.6 bn), *insurance* (EUR 4.6 bn) and *computer and information services* (EUR 4.4 bn).

The EU deficit in *travel* increased to EUR 5.6 bn in 2001 from EUR 2.3 bn in 2000. The deficit in *royalties and licence fees* increased to EUR 8.7 bn in 2001 (EUR 1.1 bn more than in 2000) and has become a structural phenomenon in the EU, predominantly due to the amount of the deficit incurred with the USA, i.e. EUR 10.2 bn in 2001. Finally, the deficit recorded in *other business services* in 2000 (EUR -4.9 bn) practically disappeared in 2001 (EUR -0.2 bn).



Euro-zone's⁴ balance of services in surplus in 2001

The euro-zone's⁵ exports and imports of services in 2001 were 10% higher than in 2000, reaching EUR 316.2 bn and EUR 313.8 bn, respectively. In 2001, the euro-zone balance of services shifted from a deficit of EUR 10.0 bn to a surplus of EUR 2.4 bn. The improvement in the balance of services for the euro-zone was higher (EUR +12.4 bn) than the one achieved by the EU (EUR +2.4 bn). Two main factors explain the improvement in the euro-zone balance of services. First, the *travel* surplus grew by EUR 7.4 bn, from EUR 14.9 bn in 2000 to EUR 22.3 bn in 2001. Second, the deficit in *sea transport* decreased by EUR 5.8 bn, from EUR 7.7 bn in 2000 to EUR 1.9 bn. On the other side, higher deficits were recorded in *royalties and license fees* and *other business services*, which increased by EUR 2.3 bn and EUR 3.4, respectively.



Euro-zone partners in trade in services

The USA was the largest recipient of euro-zone services outside the group of non-euro-zone countries in 2001. Exports to the USA amounted to EUR 81.6 bn, EUR 9.8 bn more than in 2000. At the same time, the USA was the main provider of services to the euro-zone; imports of services from the USA went up to EUR 90.5 bn in 2001, from EUR 82.5 in 2000. Thus, the deficit with this partner narrowed to EUR 9.0 bn. However, it must be highlighted that there was a gap of EUR 7.1 bn between the euro-zone's balance with the USA and the EU's, since the latter achieved a EUR 1.9 bn deficit with the USA in 2001. This was chiefly due to the considerable bilateral surplus of EUR 8.3 bn attained by the United Kingdom.

⁴ For possible differences between the data published by Eurostat and the ECB, please consult methodological notes on page 7.

⁵ Greece joined the euro-zone in 2001. Hence, the number of Member States in the euro-zone went from 11 in 2000 to 12 in 2001. Greece traditionally presents a surplus in the balance of services, both with partners EU and extra-EU, which has contributed to the improvement in the balance of services of the euro-zone.

Geographical breakdown of the extra-euro-zone trade in services (bn EUR)

	Exports			Imports			Net		
	2000	2001	Var. (%)	2000	2001	Var. (%)	2000	2001	Difference
Extra-euro-zone	280.7	316.2	12.7	290.7	313.8	7.9	-10.0	2.4	12.4
EU without euro-zone (1)	87.9	98.1	11.6	77.8	82.0	5.4	10.1	16.1	6.0
European Free Trade Association (2)	30.9	36.9	19.3	30.3	33.1	9.0	0.6	3.8	3.2
Other European Countries (3)	19.6	23.3	19.2	25.6	29.7	16.1	-6.0	-6.4	-0.4
Africa	12.2	14.2	15.8	15.2	16.2	6.9	-2.9	-2.1	0.9
America (excluding USA)	16.8	17.3	3.0	17.4	17.5	0.2	-0.6	-0.1	0.5
USA	71.7	81.6	13.7	82.5	90.5	9.8	-10.7	-9.0	1.8
Asia (excluding Japan)	21.0	24.2	14.9	28.2	29.6	4.9	-7.1	-5.4	1.7
Japan	11.8	11.9	0.7	7.2	8.2	13.2	4.6	3.7	-0.9
Australia, Oceania and other territories	2.4	3.0	26.6	3.1	2.7	-12.0	-0.7	0.3	1.0

(1) EU Member States not in the euro-zone: Denmark, Greece (in 2000), Sweden, and the United Kingdom

(2) European Free Trade Association: Iceland, Liechtenstein, Norway and Switzerland

(3) European countries other than EU and EFTA countries

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The methodological framework used is that of the fifth edition of the International Monetary Fund (IMF) Balance of Payments manual.

The EU balance of payments is compiled by Eurostat in accordance with a methodology agreed with the European Central Bank (ECB) based on extra-EU transactions, i.e. by aggregating cross border transactions of EU residents vis-à-vis non-EU residents as reported by the 15 participating Member States. The balance of payments of the EU institutions is added to the EU aggregate. The ECB compiles the euro-zone aggregate following the same agreed methodology excluding cross-border transactions within the euro-zone. The EU institutions are treated as non-resident of the euro-zone.

Published data for the euro-zone, which include detail on services only, have been validated by the ECB. In fact, annual detailed breakdowns of the item services for the euro-zone transactions are made available by the Member States only to Eurostat. They do not match up exactly with those released by the ECB because of different “cut-off” dates for receiving Member States’ data for processing (revisions could take place between these “cut-off” dates) and different treatments of some (minor) not allocated flows.

Geographical breakdown of goods imports

This year, most EU Member States supplied imports of goods data allocated geographically according to the “principle of consignment”, thus conforming to the international standards. This methodology consists of reporting intra-EU imports of goods according to country of consignment (community concept) rather than origin (national concept). For the calculation of the EU aggregate, country data have been harmonised in order to create one single methodological break in 1997.

Methodological difference between Eurostat and the ECB for the compilation of investment income flows

The EU-15 current account data are not fully comparable to the euro-zone figures released by the ECB. Indeed, a new methodology has been implemented by the ECB for the geographical allocation of portfolio investment income, which has consequences on investment income, income and the current account. In fact, it has been decided that receipts on portfolio investment income would be allocated geographically according to the residency of the security issuer rather than that of the immediate counterpart. On the basis of intra-EU receipts, payments on portfolio investment income should be allocated consistently between intra and extra-EU according to the residency of the end-investor. Due to a shortage of data, this methodological change could not be implemented for the compilation of the EU-15 aggregate.

Both institutions and the European Union Member States are currently working in order to minimise these discrepancies in the future.

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