

An EU-27 current account external deficit of more than €85bn in 2006

An increasing surplus on trade in services

Statistics in focus

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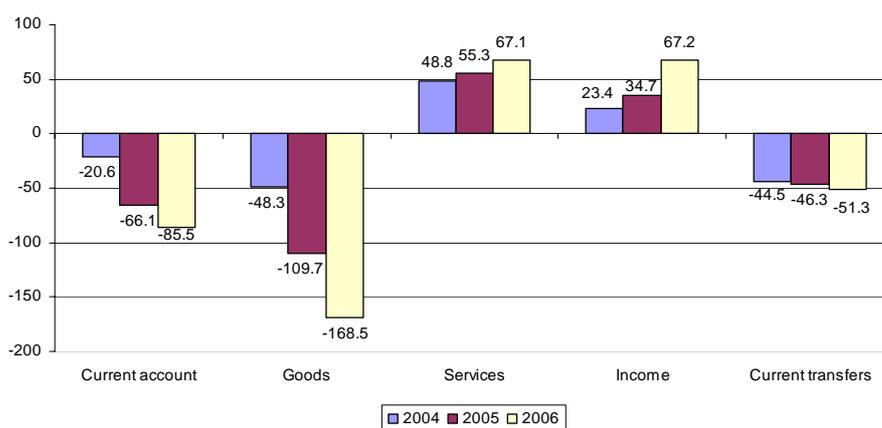
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The preliminary results of the EU-27's current account balance for 2006 showed a deficit of €85.5 billion compared with €66.1 billion in 2005 and €20.6 billion in 2004. This result was mainly due to a growing deficit in goods and current transfers balances (-€168.5 billion and -€51.3 billion respectively). In contrast, the EU-27 continued to increase its external surplus in the services account (€67.1 billion in 2006 compared with €55.3 billion in 2005) and income account (€67.2 billion in 2006 compared with €34.7 billion in 2005). In 2006, the USA remained the EU's main foreign trading partner. The EU-27's external current account recorded surpluses with the USA (€114.5 billion), Canada (€13.5 billion), Switzerland (€13.2 billion), Hong Kong (€6.9 billion) and India (€2.5 billion), but deficits with China (-€118.4 billion), Russia (-€53.0 billion) and Japan (-€26.4 billion).

Graph 1: EU-27 current account balances with the rest of the world (bn euro)



Source: Eurostat

Among the European Union's 27 Member States, the Netherlands and Spain were the main contributors to the EU-27's current account external deficit, with 72% and 58% of the total respectively. In contrast, 10 Member States recorded current account surpluses. The largest were recorded for Germany, France and Sweden.

€58.8bn rise in the EU-27's goods¹ deficit

Preliminary results for 2006, compared with 2005, showed an increase in the EU-27's external current account deficit, mainly due to a sharp rise of €58.8bn in the goods deficit and a deterioration of €5.0bn in the current transfers account. This deterioration was not offset by increases of €11.8bn in services surplus and of €32.5bn in the income balance. The deterioration in the EU-27's goods balance was due to a larger increase in imports (+16.3%) than in exports (+12.4%), as shown in Table 1.



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¹ In trade in goods, according to the Balance of Payments concept, both exports and imports are valued free on board (f.o.b.) while in Foreign Trade Statistics imports are valued at cost insurance freight (c.i.f.). This explains, together with other methodological differences, why different values are observed in these two statistical domains, although both show similar trends.

Table 1: Main items of the EU-27's current account (bn euro)

	Credit			Debit			Net		
	2005	2006	Change in %	2005	2006	Change in %	2005	2006	Diff.
Current account	1906	2166	13.7	1972	2252	14.2	-66.1	-85.5	-19.5
Goods	1035	1164	12.4	1145	1332	16.3	-109.7	-168.5	-58.8
Services	407	447	10.0	351	380	8.3	55.3	67.1	11.8
Transportation	104	112	7.0	86	97	12.6	18.4	14.9	-3.5
Travel	70	75	7.3	86	88	1.8	-16.2	-12.7	3.5
Other services	230	261	13.2	177	196	10.7	53.4	64.8	11.4
Services not allocated	2	0	-97.3	2	0	-96.3	-0.3	0.0	0.3
Income	424	516	21.6	390	449	15.2	34.7	67.2	32.5
Current transfers	40	39	-1.0	86	91	5.3	-46.3	-51.3	-5.0

Source: Eurostat

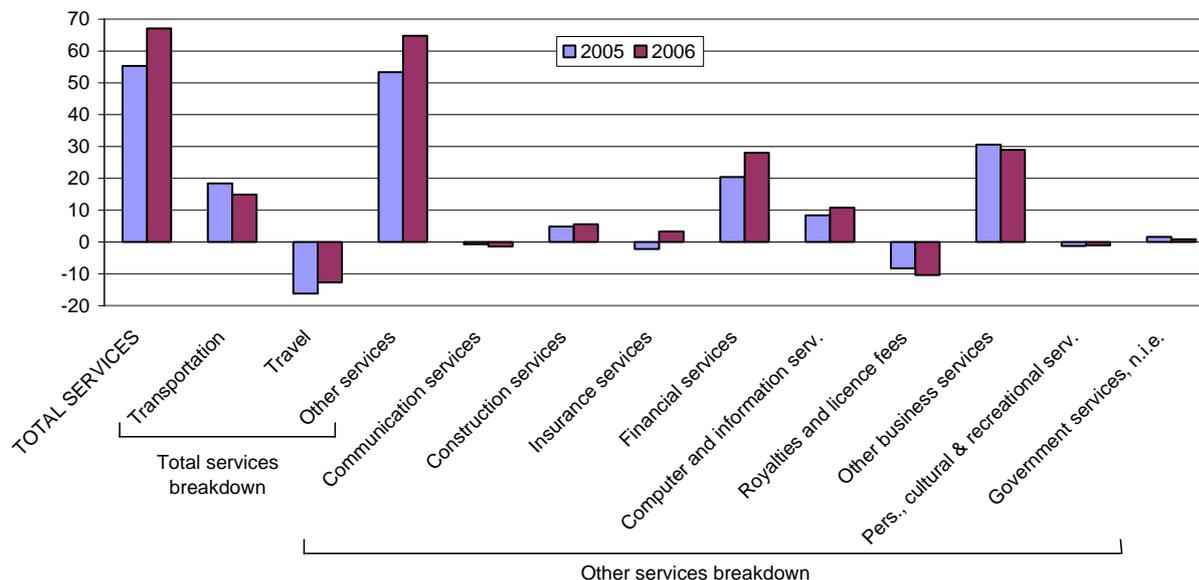
Figures may not add up due to rounding

Increase of €11.8bn in the EU-27's services surplus

In 2006, the EU recorded a surplus of €67.1bn in trade in services with the rest of the world, compared to a surplus of €55.3bn in 2005. This increase in surplus was the result of an increasing surplus in *other services*² (+21.3%) and a decrease in travel deficit (-21.6%). The improvement achieved in *other services* was mainly due to an increased surplus in financial services (+37.3%) and computer and information services (+28.6%).

Moreover, a deficit in 2005 in insurance services turned into a surplus in 2006. This trend was partly offset by marginal deterioration of the deficits in a number of service categories (for details see Graph 2). It should also be noted that in 2006 the surplus in transportation services decreased by €3.5bn, compared to 2005 – a deterioration in balance for the first time since 2002.

Graph 2: EU-27 services balances with the rest of the world (bn euro)



Source: Eurostat

² The item 'Other services' covers: communication services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services, and government services, n.i.e.

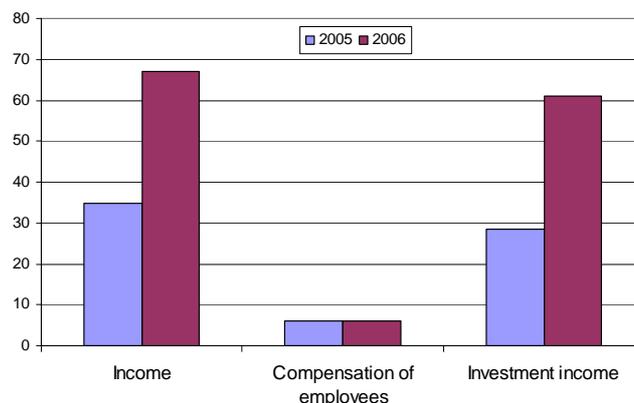
EU-27 income in surplus with the rest of the world

The surplus of *income account* increased by €32.5bn between 2005 and 2006. This was mainly due to large net inflows of €61.1bn in the item *investment income* in 2006 compared to net inflows of €28.5bn in 2005.

The positive net inflows for *compensation of employees* (including border, seasonal and other workers) remained stable between 2005 and 2006.

The EU-27's increased *income* surplus largely resulted from surpluses with the United States, Brazil, Russia, Canada, Hong Kong, China and India, as shown in Table 3 on page 4. In contrast, deficits were recorded with Switzerland and Japan.

Graph 3: EU-27 income balances with the rest of the world (bn euro)



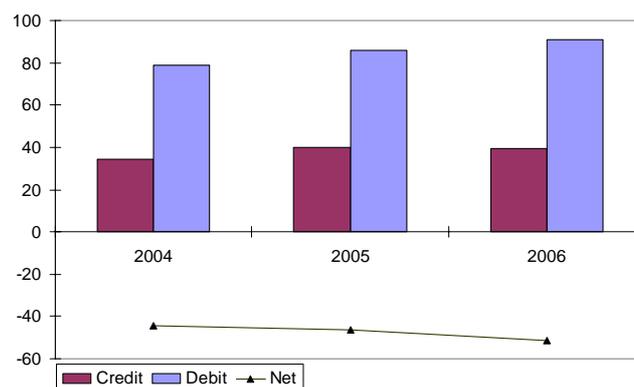
Source: Eurostat

Slowly increasing current transfers deficit

The EU-27's *current transfers* deficit increased to €51.3bn in 2006, from €46.3bn in 2005, continuing the negative trend of previous years. The main reason behind this higher deficit was the 5.3% increase in *current transfers* debit (€4.6bn), which was accentuated by a 1% fall in credit transactions (€0.4bn).

The latter deficit is structural by definition because the EU, as a member of the group of most-developed countries, is a donor of funds to less-developed countries (development aid, emergency help, etc.).

Graph 4: EU-27 current transfers with the rest of the world (bn euro)



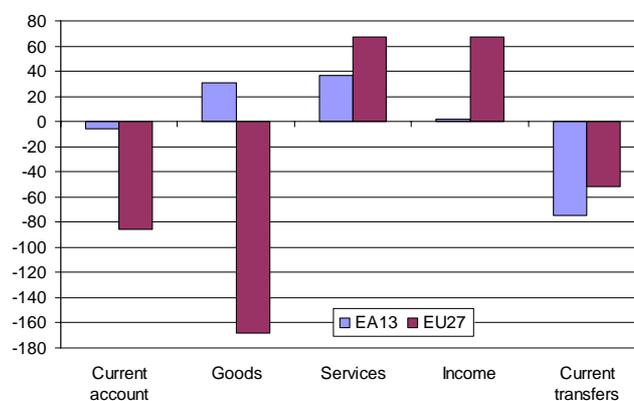
Source: Eurostat

Euro area³ (EA-13) income balance turned positive

Although the *current account* deficit in the euro area was much smaller than in the EU-27 in 2006 (-€6.1bn compared to -€85.5bn), the general trends were fairly similar except for the *goods account*, for which the euro area recorded a positive balance of €30.5bn while the EU-27 recorded a deficit of €168.5bn.

As shown in Table 2, between 2005 and 2006, the deterioration of €4.3bn in the euro area's *current account* balance was mainly due to a fall in the trade surplus in *goods* (-€14.8bn) and *current transfers* deficit (-€4.5bn). This deterioration was not offset by the improvement of €13.3bn in *income* balance, which changed from a deficit in 2005 (-€11.5bn) to a surplus in 2006 (€1.8bn). Also, in line with the EU-27 results, the euro area *services* surplus increased by €1.8bn between 2005 and 2006.

Graph 5: EA-13 and EU-27 current balances with the rest of the world (bn euro)



Source: Eurostat

³ The euro area includes: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland and Slovenia.

Table 2: Main items of the euro area *current account* (bn euro)

	Credit			Debit			Net		
	2005	2006	Change in %	2005	2006	Change in %	2005	2006	Diff.
Current account	2066.1	2338.7	13.2	2067.9	2344.8	13.4	-1.8	-6.1	-4.3
Goods	1224.2	1390.0	13.5	1178.9	1359.5	15.3	45.3	30.5	-14.8
Services	401.8	429.8	7.0	367.0	393.2	7.1	34.8	36.6	1.8
Transportation	:	97.8	:	:	94.4	:	:	3.4	:
Travel	:	96.2	:	:	80.9	:	:	15.3	:
Other services	:	235.8	:	:	218.0	:	:	17.8	:
Services not allocated	:	0.0	:	:	0.0	:	:	0.0	:
Income	354.7	432.6	22.0	366.2	430.8	17.6	-11.5	1.8	13.3
Current transfers	85.4	86.3	1.1	155.9	161.3	3.5	-70.5	-75.0	-4.5

Source: Eurostat

Figures may not add up due to rounding

In 2006, the USA remained the EU's main foreign trading partner

As can be seen in Table 3, the EU-27's *current account* (€6.9bn) and India (€2.5bn), and deficits with China for 2006 showed a surplus with the USA (€114.5bn), (-€118.4bn), Russia (-€53.0bn) and Japan (-€26.4bn). Canada (€13.5bn), Switzerland (€13.2bn), Hong Kong

Table 3: EU-27 *current account* balances – 2006 geographical breakdown⁴ of the main components (bn euro)

	Switzerland	Russia	Canada	USA	Brazil	China*	Hong Kong	India	Japan	Rest of the World ⁵
Current account	13.2	-53.0	13.5	114.5	0.1	-118.4	6.9	2.5	-26.4	-38.5
Goods	8.4	-62.1	7.3	90.0	-7.0	-120.8	1.1	2.3	-30.7	-57.0
Services	15.8	3.3	1.3	9.9	0.5	1.7	0.7	1.5	8.1	24.4
Transportation	1.2	-1.5	0.7	12.3	0.7	-0.3	0.1	0.8	1.2	-0.3
Travel	4.8	1.1	-0.1	5.6	-0.3	-0.6	0.3	-0.6	2.1	-25.0
Other services	9.8	3.7	0.8	-8.1	0.0	2.6	0.3	1.3	4.8	49.8
Services not allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Income	-11.5	6.4	6.0	13.5	7.7	2.5	5.4	0.5	-3.6	40.4
Current transfers	0.5	-0.6	-1.1	1.1	-1.1	-1.7	-0.3	-1.7	-0.2	-46.3

*China (excl. Hong Kong)

Source: Eurostat

The EU-27's *current account* surplus with the USA reached €114.5bn in 2006, compared to €109.3bn in 2005. This made the USA the EU's biggest foreign trading partner. Although the EU-27's *goods* surplus with the USA recorded a small decrease of 2.6% between 2005 and 2006, the *goods* balance of €90.0bn is the highest compared with other partners. *Current transfers* with the USA moved from a deficit of €0.6bn in 2005 to a surplus of €1.1bn in 2006.

The EU-27's *current account* surplus with Switzerland increased between 2005 and 2006, from €10.1bn to €13.2bn. Two factors are behind this result. Firstly the *services* surplus rose (from €12.1bn to €15.8bn). EU-27 *services* credits with Switzerland grew by 6.6% while debits recorded a small fall of 0.8%. Secondly the *income* deficit decreased (from -€12.7bn to -€11.5bn). EU-27 *income* credits with Switzerland recorded a growth of 20.4% compared to 12.7% in *income* debits. This improvement has been in part counterbalanced by a contraction of *goods* and *current transfers* balances.

The EU's significant *current account* deficit with China, resulted almost completely from the deficit in *goods* (-€120.8bn). EU-27 exported €63.7bn worth of *goods*, compared to an import of €184.5bn.

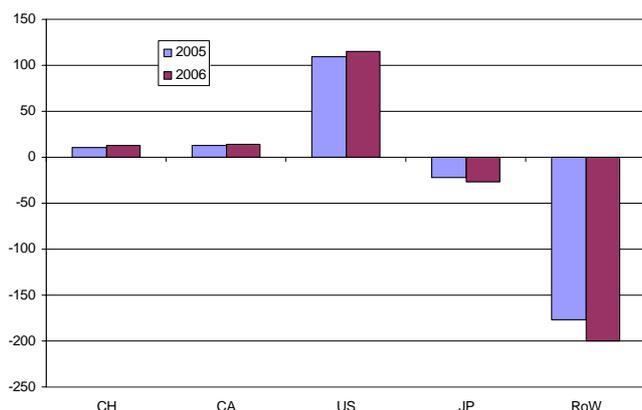
The EU-27's *current account* deficit with Japan increased between 2005 and 2006, from €21.7bn to €26.4bn. This deterioration can be explained by the increase of *goods* and *income* deficits (€0.8bn, €2.8bn respectively) and by the slight decrease in *services* surplus (€0.4bn). Also, *current transfers* switched from a surplus of €0.5bn in 2005 to a deficit of €0.2bn in 2006.

EU-27 recorded surpluses in trade in *services* with all its main trading partners (see Table 3). In the *income account* it had a positive balance with all main trading partners except for Switzerland and Japan. In the *goods account* the EU-27 recorded surpluses with Switzerland, Canada, USA, Hong Kong and India, and deficits with Russia, Brazil, China and Japan. As for *current transfers*, the EU had a negative balance with all main trading partners except for Switzerland and the USA.

⁴ The selected partners do not necessarily represent the main partners, but reflect actual data availability.

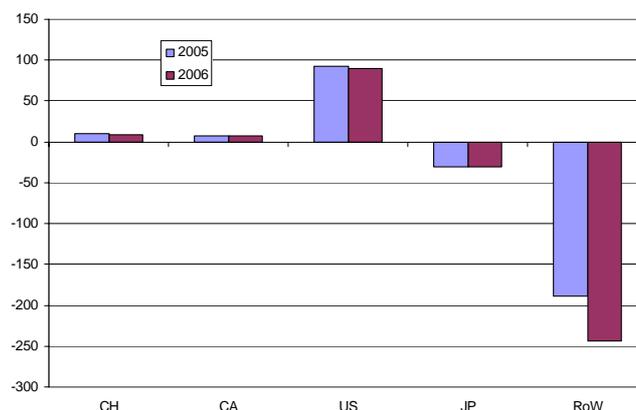
⁵ Rest of the World: all territories outside EU-27 excluding Switzerland, Russia, Canada, the USA, Brazil, China, Hong Kong, India and Japan.

Graph 6: Current account balance with Switzerland, Canada, the USA, Japan and the rest of the World⁶ (bn euro)



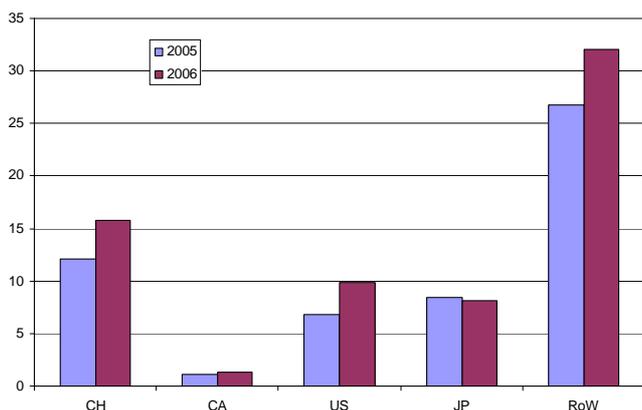
Source: Eurostat

Graph 7: Goods balance with Switzerland, Canada, the USA, Japan and the rest of the World⁶ (bn euro)



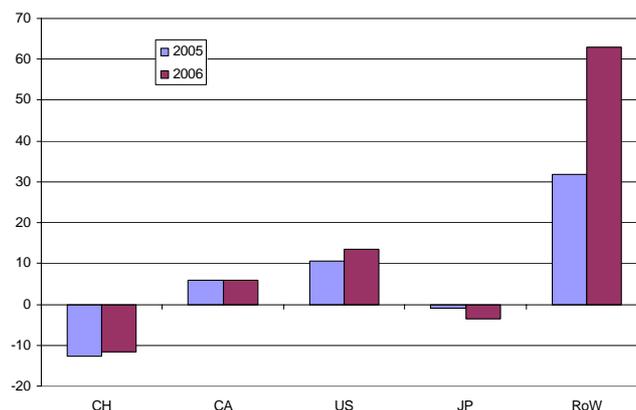
Source: Eurostat

Graph 8: Services balance with Switzerland, Canada, the USA, Japan and the rest of the World⁶ (bn euro)



Source: Eurostat

Graph 9: Income balance with Switzerland, Canada, the USA, Japan and the rest of the World⁶ (bn euro)



Source: Eurostat

As mentioned earlier, the factor behind the deterioration of total current account balance in 2006 is the sharp increase in the *goods* deficit. It should be noted that the trade in goods figures published within Balance of Payments framework are not the same as those published within the external trade statistics framework. The reasons for the differences are illustrated in Eurostat's Working Paper and Studies "Differences between Balance of Payment and Foreign Trade Statistics" KS-DB-04-001 (see Eurostat web site).

When breaking down external trade figures according to selected trading partners, as shown in Graph 10, we can observe deficits with China (excl. Hong Kong), the Organisation of Petroleum Exporting Countries (OPEC),

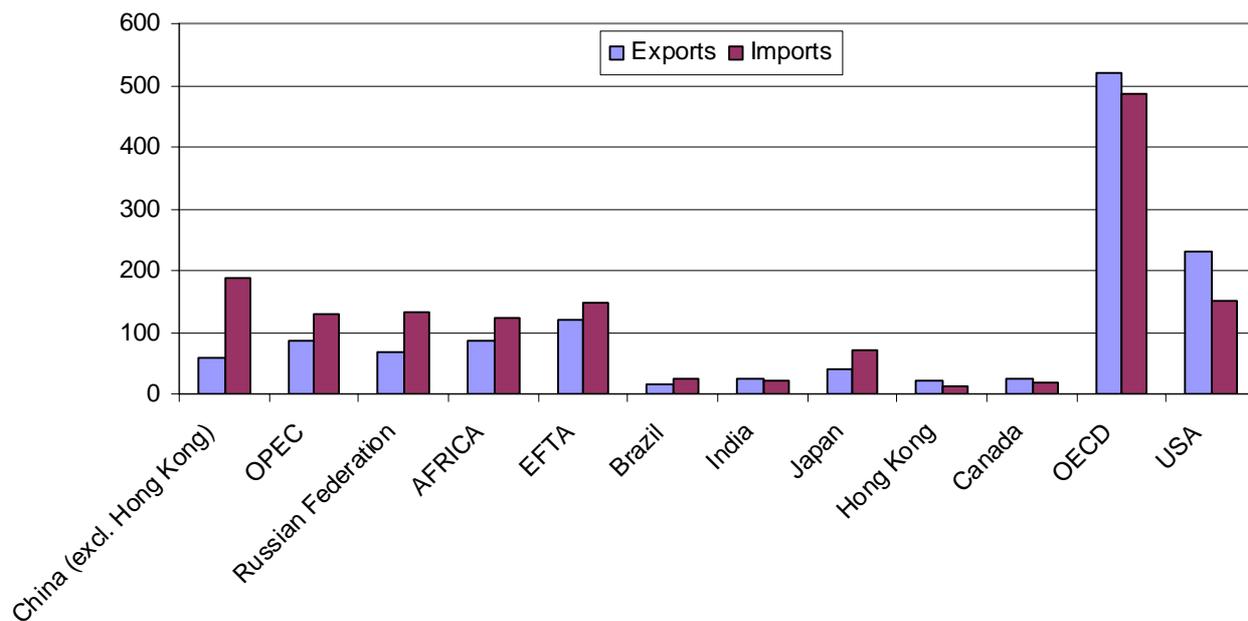
the Russian Federation, Africa, the European Free Trade Association (EFTA), Brazil, India and Japan.

As published in Eurostat News Release 65/2007, the share of Russia in the EU27's total external trade in *goods* has nearly doubled between 2000 and 2006. In 2006, Russia accounted for just over 6% of EU27 exports and 10% of EU27 imports, and was the EU27's third most important trading partner, after the USA and China.

Compared with 2005, the sharpest deterioration in the *goods* balance in 2006 was recorded with China (excl. Hong Kong), the Organisation of Petroleum Exporting Countries (OPEC) and Russian Federation (Graph 11).

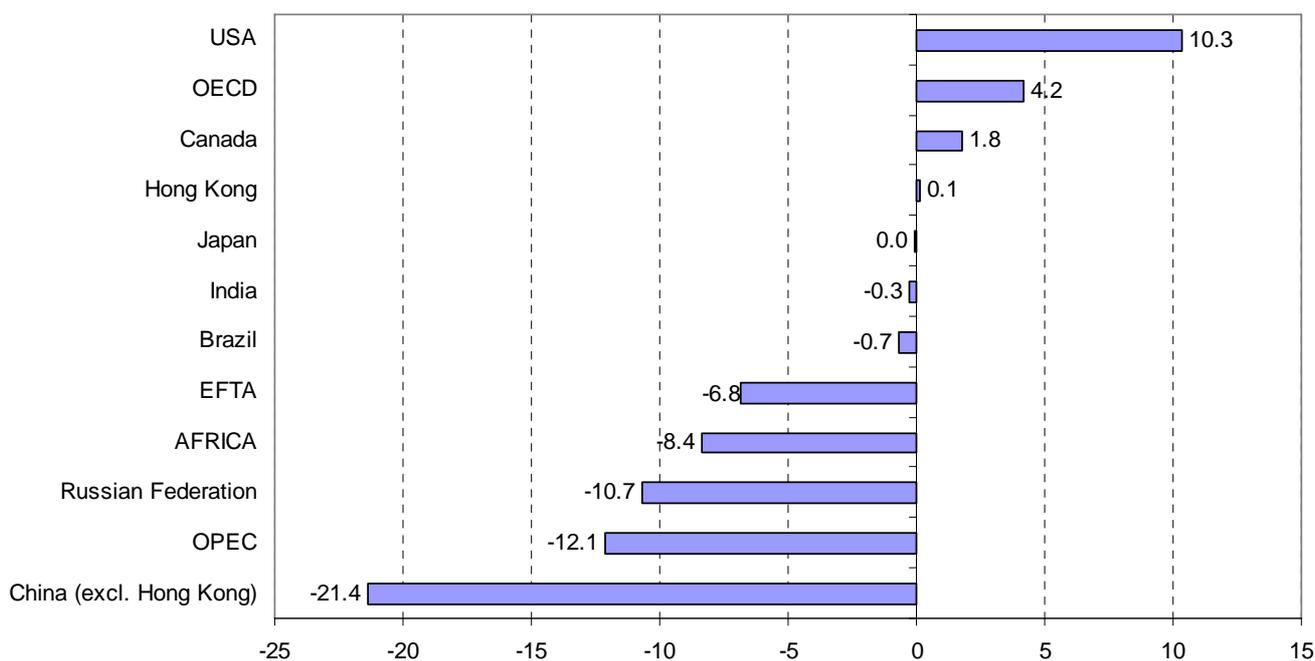
⁶ Rest of the World: all territories outside EU27 excluding Switzerland, Canada, the USA and Japan.

Graph 10: Goods exports and imports: EU27 selected trading partners in 2006 (in bn euro)



Source: Eurostat – External trade statistics

Graph 11 Evolution in trade in goods balance between 2005 and 2006 (in %)



Source: Eurostat – External trade statistics

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The results presented here are preliminary calculations based on the sum of quarterly data reported by Member States and are subject to revisions. Detailed trade in services results for 2006 will be issued by the end of December 2007. The 2005 results for the services main items, as presented here, may differ from those previously released under the annual detailed trade in services release, due to revisions in the underlying quarterly data.

The balance of payments records all economic transactions between a country (i.e. its residents) and foreign countries or international organisations (i.e. the non-residents of that country) during a given period. As part of the balance of payments, the current account takes care of real resources and is subdivided into four basic components: goods, services, income and current transfers. The methodological framework used is that of the fifth edition of the International Monetary Fund Balance of Payments Manual (BPM5). 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 27 participating Member States. The balance of payments of the EU institutions is added to the EU aggregate.

Eurostat data concerning the Euro area total services item do not match up exactly with those released by the ECB, due to different revision timetable and level of detail.

All the figures can be downloaded free of charge from the balance of payments section of the Eurostat web site (<http://europa.eu.int/comm/Eurostat/>).

Trade in goods figures published within Balance of Payments framework are not the same as those published within external trade statistics framework. The reasons of the differences are illustrated in Eurostat's working paper and studies "Differences between Balance of Payment and Foreign Trade Statistics" KS-DB-04-001 (see Eurostat web site).

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