EUROPEAN
COMMISSION

Brussels, 30.3.2016
COM(2016) 163 final

REPORT FROM THE COMMISSION

assessing the quality of data reported by Member States in 2014 on balance of payments, international trade in services and foreign direct investment

{SWD(2016) 68 final}

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1. INTRODUCTION

Article 4(3) of Regulation (EC) No 184/2005[1] states that:

'The quality of the data transmitted shall be assessed, on the basis of the quality reports, by the Commission with the assistance of the Balance of Payments Committee referred to in Article 11(1). This assessment by the Commission shall be sent to the European Parliament for information.'

This report from the Commission assesses the quality of data on the balance of payments (BOP), international trade in services statistics (ITSS) and foreign direct investment (FDI) that were reported by EU Member States in 2014 under Regulation (EC) No 184/2005. The Commission prepared this report with the assistance of the Balance of Payments Committee, as required under Article 4(3) of the Regulation, and based it on the results of the quality assessment undertaken by Eurostat between January and July 2015. The quality assessment also covered the European Economic Area countries of Iceland and Norway, but the Commission's report does not analyse the results for those countries.

This report provides a short description of the principles guiding the quality assessment of official statistics. It then goes on to analyse the extent to which BOP, ITSS and FDI data comply with the quality principles underlying the European Statistical System (ESS).

This report focuses primarily on the requirements of Member States to compile and transmit BOP, ITS and FDI data and on whether or not Member States comply with their legal obligations. It also provides information that can be used to assess the quality of these data, with particular emphasis on total aggregates and the major components needed to compile the aggregates.

The accompanying Commission Staff Working Document on the quality of BOP, ITSS and FDI statistics transmitted by the Member States, Iceland and Norway in 2014 presents an in-depth analysis of the results of quality assessment.

2. ASSESSING THE QUALITY OF OFFICIAL STATISTICS

Every year Eurostat assesses the quality of BOP, ITSS and FDI data in accordance with the principles laid down in Commission Regulation (EC) No 1055/2008[2]. It checks that the data

[1] 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 (OJ L 35, 8.2.2005, p. 23).

[2] 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.

comply with the seven quality criteria in Article 12(1) of Regulation (EC) No 223/2009 on European statistics[3], namely: i) relevance; ii) accuracy; iii) timeliness; iv) punctuality; v) accessibility and clarity; vi) comparability; and vii) coherence. Regulation (EC) No 223/2009[4] was amended on 29 April 2015 to strengthen several provisions, including those on quality assessment.

Over the years, Eurostat has worked hard to develop quality management methods and tools to help it produce high-quality European statistics. Quality reporting underpins quality assessment, which in turn is the starting point for improving quality. The *ESS Handbook for quality reports*[5] details the full range of methods that can be used to assess the quality of official statistics. The method used differs depending on the type of statistical process.

The purpose of statistics is to produce estimates of an unknown value. Variability and bias mean that these estimates are not equal to the true values and that statistics may suffer from a vast range of sampling and non-sampling errors.

An established theory for checking the accuracy of statistics based on sample surveys looks at variability, i.e. how much an estimator varies around its expected value. Variability is expressed by its variance, standard error, coefficient of variation and confidence intervals.

BOP statistics (like national accounts) are compiled through an accounting framework and are based on inputs from a variety of primary statistics, such as data on goods, services, and FDI. Some of the primary statistics are based on sample surveys, some are derived from administrative data, while some result from models.

A direct approach to measuring accuracy is not possible for an accounting framework like BOP. According to general principles on measuring quality in statistics, the two main instruments that should be used are the analysis of revisions (which show the degree of closeness of initial estimates to subsequent or final estimates) and the examination of errors and omissions.[6] Both are covered by this report.

While the quality of aggregated statistics is not the simple sum of the quality of all underlying primary data, the quality of BOP data does depend on the quality of all the underlying primary data. Separate quality reports[7] are regularly prepared for international trade in goods statistics. As provided for in Regulations (EC) Nos 638/2004 and 471/2009, these statistics are the main component of the current account. Therefore, only ITSS and FDI data are assessed together with BOP data.

[3] Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities, OJ L 87, 31.3.2009, p. 164.

[4] Cf. Regulation (EU) 2015/759 of the European Parliament and of the Council of 29 April 2015 amending Regulation (EC) No 223/2009 on European statistics, OJ L 123, 19.5.2015, p. 90.

[5] See *ESS Handbook for quality reports*, 2014 edition, http://ec.europa.eu/eurostat/en/web/products-manuals and-guidelines/-/KS-GQ-15-003.

[6] See *ESS Handbook for quality reports*, 2014 edition, http://ec.europa.eu/eurostat/en/web/products-manuals-and-guidelines/-/KS-GQ-15-003.

[7] See http://ec.europa.eu/eurostat/web/products-statistical-working-papers/-/KS-TC-14-009.

3. SPECIFIC FEATURES OF THIS QUALITY ASSESSMENT

This quality assessment is the first since the entry into force of Commission Regulation (EU) No 555/2012[8]. Therefore, the country quality report covers data produced using the updated data requirements and the methodology described in the sixth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual* (BPM6) (see Box 1).[9]

Member States first transmitted data on BPM6-based transactions and data on international investment position (IIP) in June 2014. In accordance with the new requirements laid down in Commission Regulation (EU) No 555/2012, more detail is now available on transaction breakdowns, while the frequency and timeliness of the data have improved. As a result, final users now have a much better overview of BOP, IIP, ITSS and FDI data compared with the data that were required under the BPM5 methodology. The new requirements introduce a new dataset on monthly BOP for the Member States. In addition to the mandatory requirements, national compilers now transmit voluntary data with a bilateral geographical breakdown among EU countries and additional BOP items.

Box 1. The sixth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual* (BPM6)

The BPM6 provides the standard framework for compiling statistics on transactions and positions between an economy (individual country, currency union (such as the euro area) or economic union (such as the European Union)) and the rest of the world. It explains concepts, definitions, classifications and conventions for BOP and IIP statistics, enhances international comparability of data by promoting internationally adopted guidelines and shows the links to other macroeconomic statistics in order to promote consistency across different statistical domains. The BPM6 is consistent with the European System of National and Regional Accounts [10] and the System of National Accounts 2008[11], which set the statistical framework for national accounts. It is also in line with the fourth edition of the OECD's Benchmark Definition of Foreign Direct Investment[12], which provides additional guidelines for FDI statistics, and with the UN *Manual on Statistics of International Trade in Services 2010*.

The BPM6 reflects changes that have occurred in the world economy since 1993. This period has been characterised by a significant increase in cross-border activity due to the reduction of trade barriers and capital controls. International corporate structures have become increasingly complex, with value chains, financial linkages and ownership structures at a global level. Cross-border financial flows have also increased substantially owing to dynamic growth in international capital markets. Globalisation has given rise to new policy challenges and is the reason for many of the changes introduced by the BPM6. Because the transaction

[8] 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).

[9] International Monetary Fund *Balance of Payments and International Investment Position Manual*, Sixth Edition, Washington D.C. (2009). See https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.

[10] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1).

[11] System of National Accounts adopted by the United Nations Statistical Commission, http://unstats.un.org/unsd/nationalaccount/sna2008.asp..

[12] *OECD Benchmark Definition of Foreign Direct Investment* — 4th Edition, Paris (2008).

volumes often account for only a part of stocks, the International Investment Position (IIP) are often more useful as an indicator of the external financial situation of the economy. This is reflected in the new title 'Balance of Payments and International Investment Position Manual', which shows the growing importance of the IIP.

The quality reports on BOP, ITS and FDI ensure regular monitoring of the stability and the consistency of the data. The quality report template was amended before the start of the quality assessment to adapt it to the new data requirements and methodological changes resulting from the BPM6, as well as to accommodate the scoreboard quality process introduced under the macroeconomic imbalances procedure.

4. MAIN FINDINGS OF THE QUALITY ASSESSMENT

The Commission Staff Working Document attached to this report details the findings of the quality assessment for each quality criterion. This quality assessment was carried out with the assistance of the Balance of Payments Committee.

The amendment of Regulation (EC) No 184/2005 by Commission Regulation (EU) No 555/2012 led to closer harmonisation of BOP, ITSS and FDI statistics throughout the EU and broadened the data collection requirements to make more data available to users. The quality of the statistical domains analysed in Commission Staff Working Document is generally satisfactory and meets the legal requirements. Nevertheless, some quality indicators differ between Member States, and the indicator levels could be improved.

The results of the first quality assessment after the introduction of the BPM6 have met Eurostat's expectations. All Member States except Croatia coped generally well with the changed data requirements and methodology. The quality of BOP data is the most satisfactory, while improvements are most often needed in FDI statistics. Based on the quality criteria used in the assessment, the overall results are detailed below.

Relevance

Data completeness was on average 96 % for both monthly and quarterly BOP data, 98 % for quarterly IIP data, 83 % for quarterly revaluations, 95 % for ITSS and 91 % for FDI flows and stocks.

27 Member States fully satisfied the requirements for monthly BOP data, while one country has not provided monthly BOP datasets. Completeness was equal to or over 95 % for 26 Member States as regards quarterly BOP data, and for 27 Member States as regards quarterly IIP data. Completeness was equal to or over 95 % for 24 Member States as regards ITSS, for 23 Member States as regards FDI stocks and for 19 Member States as regards FDI flows.

Data availability to final users was satisfactory, with 95 % or more of main items publishable. This was the case for 18 Member States as regards monthly BOP data, 20 Member

States as regards quarterly BOP, 22 Member States as regards quarterly IIP, 14 Member States as regards ITSS, 12 Member States as regards FDI flows and 14 Member States as regards FDI stocks. Some Member States excessively flag data as 'non-publishable' or as 'confidential'. Eurostat has been in contact with those Member States, and cooperates with national authorities to increase the amount of publishable data. This has already led to improvements compared with the situation presented in this report.

Croatia stands in sharp contrast to the overall good results, especially in the terms of data completeness.[13]

Accuracy

We must consider the analysis of revisions in this report as very preliminary because of the limited availability of the BPM6 data vintages, with only one set of the revised quarterly data transmitted so far.

We observed only small revisions in monthly and quarterly current account items, indicating stable estimates. The relative magnitude of the revisions was larger for primary income and financial accounts items. The lower stability is due mainly to the difficulty in estimating reinvested earnings. The indicator on directional reliability shows a good level of predictability in the first assessments for monthly BOP data. Revisions of annual data were not analysed in this quality assessment as vintages of data for annual ITS and FDI were not available.

Timeliness and punctuality

The timeliness of monthly BOP, quarterly BOP and quarterly IIP data improved gradually from the first preliminary BPM6 transmission in June 2014 to the most recent analysed datasets with deadlines on 15 and 23 December 2014. 24 Member States sent ITS data before or on the deadline of 30 September 2014, while 23 Member States first sent FDI data before, on or within three days of the official deadline.

Comparability

Asymmetries for current account components improved during the reference periods. Owing to shorter available financial account time series for the EU aggregates, it was not possible to analyse the asymmetries for financial account. The experience of the European FDI Network shows that data exchange between countries can actually help to solve asymmetries, but several preconditions must first be met.

Coherence

The overall consistency over integrity rules improved slightly. However, Eurostat was sometimes not in a position to fix the problems it had detected and had to request transmissions of corrected datasets from national compilers. There were almost

[13] Croatia made its monthly BOP data available in October 2015, i.e. after the end of the quality exercise.

no discrepancies between the quarterly and annual ITSS data, while there were some differences between quarterly and annual FDI flows and income. These inconsistencies can usually be explained by delays in the revision of quarterly series following the annual surveys.

Member States have worked hard to reduce the size of errors and omissions. The average relative error indicator for errors and omissions recorded values equal to or higher than 5 % for 6 Member States, while for 8 Member States the figure was 0 % or 1 % for all periods analysed. The indicator on the cumulated relative sum of errors and omissions showed lower results for all countries with higher values of errors and omissions.

The directional consistency of BOP statistics and ITGS remains high. However, a few Member States did not achieve the expected degree of consistency.

The overall quality of data transmitted pursuant to Regulation 555/2012 is good. However, all Member States need to address the remaining outstanding deficiencies. Member States should also bear in mind that this first assessment could not explore all the dimensions of data quality and that the sound and full implementation of the new methodology is yet to be analysed. However, Eurostat has already started this analysis in cooperation with the Member States in the Balance of Payments Working Group. Eurostat and the European Central Bank are also visiting Member States to address country-specific issues. Particular attention and support will be provided to Croatia.

As a result of growing data needs, in particular in the wake of the financial crisis, BOP, IIP, ITS and FDI data are under increased scrutiny by users. Eurostat and national compilers are making every effort to ensure that these data fully meet the needs of a wide circle of users.

On the basis of this quality assessment, Eurostat makes the following main recommendations to Member States:

- Some countries still need to improve **data completeness** in order to comply with Regulation (EC) No 184/2005.

- Countries which continue to flag a substantial proportion of data as ‘confidential’ or ‘non-publishable’ should apply the **confidentiality rules** laid down in Regulation (EC) No 223/2009. Flagging data as confidential or non-publishable in a more restrictive way than indicated by the Regulation significantly decreases the value of statistical information provided to users and prevents appropriate policy analysis based on European statistics.

- Persisting **data asymmetries** should be reduced. Asymmetries remain a problem both in Europe and around the world. Eurostat encourages Member States to make more use of the FDI Network and bilateral contacts to reconcile other BOP items.

- **The size of errors and omissions** should be reduced. This remains a substantial challenge for a number of countries. Eurostat encourages Member States to investigate the reasons for high values of errors and omissions and to take action to eliminate them.

The Commission will again address the quality of data on balance of payments, international trade in services and foreign direct investment after the next quality assessment round starting in January 2016.