

Some considerations on the possible impact of the COVID-19 pandemic on balance of payments statistics

The coronavirus (COVID-19) pandemic and the measures implemented to contain its spread, such as lockdowns, deferred tax payments, financial support loans, etc., have an impact on the compilation of multi-source statistics, such as the balance of payments (b.o.p.). However, official statistics are well-equipped to deal with them.

There are two aspects to this impact. First, the lockdown measures implemented across the euro area are creating **additional challenges for the collection and compilation of data**. Second, the abrupt economic impact of these measures may create particular **difficulties for the estimation of infra-annual data**; it affects the performance of some of the existing estimation models, which often rely on past annual reference data and on the explanatory power of high frequency indicators, including for modelling seasonality.

This note elaborates on the possible impact of the pandemic on euro area b.o.p. statistics by answering four questions. The data for the reference period March 2020 will be only partly affected, as most countries only introduced lockdown measures in the middle of the month. The full impact will be felt in April (reference data) and start to unwind with the gradual reduction of the restrictions on economic activity.

1. What are statisticians doing to address the challenges?

Statisticians have been actively identifying the vulnerabilities of their statistical systems to the pandemic and looking for solutions to address these vulnerabilities since the first COVID-19 cases were identified in Europe in February. The workload was reprioritised, with a stronger focus on regular production to safeguard the quality of the output. Technical systems were tested and upgraded to ensure that the production of statistics could be fully carried out remotely. Reporters were approached to assess the potential impact of partial or non-reporting. Models were revisited to adjust the necessary parameters or were completely replaced to better respond to the economic developments. Some new methodologies had to be developed in response to the special measures and to ensure comparability across countries.

The European Central Bank (ECB) is regularly in close contact with national b.o.p. compilers (national central banks and/or national statistical institutes) to ensure that information on best practices is disseminated among compilers, that methodological questions are clarified and that harmonised

solutions to common problems are sought. These contacts have been further intensified in recent weeks, and exceptional online interactions have taken place to jointly address the challenges. Additional information is being exchanged and ad hoc bilateral data exchanges are taking place to address the major drawbacks and data limitations.

2. What is the expected impact on sources and methods?

The lockdown measures implemented across the euro area are creating additional challenges for the collection and compilation of data. Some regular data sources¹ may have been affected by the restrictions on movement (e.g. some border or households' surveys), by companies becoming temporarily inactive or having reduced administrative capacity (e.g. no or only limited teleworking) and hence not being able to respond to regular activity surveys. Some regular data sources were also delayed as a result of government actions (e.g. postponement of tax declarations). In such cases, national compilers are confronted with the need either to substitute (very few) unavailable data sources with the best available alternatives (e.g. using credit card data to estimate travel) or to account statistically for the more or less extensive under-reporting of data.

The ability of current statistical methods to appropriately account for the sudden economic downturn will also be tested. More specific techniques may be needed to deal with exceptional under-reporting, as simple grossing-up techniques would be at odds with the economic developments. Some of the existing infra-annual estimation models, which may rely on past annual reference data and on the explanatory power of high frequency indicators to account for seasonality and short-term movements, are less effective. Explanatory variables may need to be substituted and ad hoc or tailored approaches may be needed to replace generic modelling techniques.

3. Are the various b.o.p. accounts impacted equally by the pandemic?

No. The production of b.o.p. statistics is a complex multi-source exercise which relies more extensively on surveys for the compilation of the current account and on direct data sources (typically from the financial sector) for the compilation of the financial account. The pandemic is having a more profound impact on the collection of data through surveys, so current account variables could be more vulnerable. However, it is important to note that some financial actions taken to address the economic impact of the pandemic, e.g. portfolio rebalancing and some government (financial) measures, may also create challenges for the accurate recording of financial transactions.

Overall, the main challenges concern the compilation of:

- the **services account (particularly travel and transport)**, as the reliance on surveys and the need to calibrate estimation models to appropriately account for economic developments may prove more complex;
- **income on foreign direct investment**, because of the low frequency and timeliness of the underlying data sources and the need to calibrate estimation models to appropriately account for complete inactivity or a sudden drop in activity;

¹ For further information on euro area (and national) sources and methods, see European Union Balance of Payments and International Investment Position statistical sources and methods "[B.o.p. and i.i.p. Book](#)".

In addition, the following developments should also be carefully monitored:

- **EU transfers (part of secondary income)**, which are likely to increase with the implementation of EU support measures and will require coordinated and harmonised statistical recording;
- transactions in **portfolio investment**, which need to be carefully monitored to ensure that sharp portfolio rebalancing actions are correctly and symmetrically recorded across the euro area;
- transactions in **other investment**, which will partly mirror the developments in portfolio investment (preference for liquidity) and hence need to be monitored. In addition, there may be a surge in transitory accounts to bridge the temporal gap between the current account recording and settlement/payment dates.

4. Will data quality be affected and will euro area indicators be reliable?

First and foremost, the pandemic poses substantial and rapidly evolving challenges, but official statistics are well-equipped to deal with these. Nonetheless, it is likely that first releases for reference periods affected by the lockdown measures will be less accurate. Higher than usual revisions are therefore possible, particularly for the reference periods of March, April and May and the first and second quarters of 2020.² The compilation challenges may also affect the internal consistency of national data, resulting in increased national net errors and omissions. Consistency across countries may also suffer, resulting in more intra-euro area asymmetries. These two aspects may ultimately imply higher euro area net errors and omissions.

As a general rule, b.o.p. statistics are based on well-established sources and methods, which are continuously quality assessed and improved.³ During the pandemic, the accuracy and reliability of euro area aggregates may be affected by a reduction in the quality of country-specific estimates. Nonetheless, while some care will be required in the interpretation of the b.o.p., the direction and broad magnitude of the main b.o.p. indicators, such as the trade in goods and services balance, the current account balance and net financial transactions, are expected to remain a sound and the best available measure of the euro area's external transactions.

This note will be updated in the course of the year as new information becomes available.

² Assuming there is no strong second wave of COVID-19 infections requiring additional lockdown measures.

³ The latest quality report on b.o.p. statistics was published on 15 May 2020 ([link](#)).