

Warsaw, 30 September 2020

Note on the Balance of Payments data revisions for 2004-2019

On 30 September 2020, Narodowy Bank Polski released revised balance of payments for 2004-2019 and international investment position data for 2010-2019 period, a regular benchmark revision carried out at several year's interval, incorporating changes in long time series.

Entire time series are being regularly adjusted in order to obtain consistency and comparability of published data. Timing of the revision has been specified in the Harmonized European Revision Policy (HERP)¹ recommended by the European Commission, which is being implemented by National Central Banks and National Statistical Institutions. HERP requires that national revision practices are aligned across statistical domains, therefore in Poland, a parallel national accounts revision has been scheduled for October 2020.

Introduction of methodological changes has also been encouraged during the European Central Bank's and Eurostat's visit to Narodowy Bank Polski in the context of quality assurance of statistics underlying the Macroeconomic Imbalance Procedure². Furthermore, the Eurostat has obligated Statistics Poland to introduce mentioned changes as a follow up to the GNI quality report.

The revision encompassed introducing new data sources, updating existing ones as well as improving compilation methods. The harmonized policy applied to the national revision practices of balance of payments statistics at the annual, quarterly and monthly frequencies starting from 2004.

Subsequent revisions are scheduled for 2021 and 2022, according to the EU-approved timetable. Emergence of new data sources induced improvements in data compilation methods in the national accounts and the balance of payments domains.

The revision yielded a deterioration of the balance on the current account, which is now between approximately PLN 2 billion in 2009 to PLN 8 billion in 2013 and 2019³.

¹ Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics

² In September 2018 Narodowy Bank Polski hosted a visit from European Central Bank and Eurostat in the context of quality assurance of statistics underlying the Macroeconomic Imbalance Procedure. Representatives of Statistics Poland participated in the meeting.

³ Data revision as at 30.09.2020 covered new data sources, new estimation methods as well as routinely incorporated new statistical information. A certain portion of data has been revised by reporting agents and some information is collected on an annual basis only.

Affecting mostly the trade in goods balance, this change resulted from the new CIF/FOB adjustment methodology as well as inclusion of VAT carousel frauds, revised transactions of the illegal economy. New CIF/FOB adjustment methodology has also affected the transportation and insurance services. In services also new data source (VAT MOSS - purchase of digital services) was included. The revision of the current account encompassed primary and secondary income, but to a comparably lesser extent. In the financial account, a small adjustment has been introduced in portfolio investment (inclusion of estimated reinvested earnings of investment funds).

Revision details

1. Exports/imports of goods and services - new CIF/FOB adjustment methodology

Poland's entry to the EU has been a springboard for Polish transportation companies. Year after year they've been reporting increase in transportation services, which resulted from significant increase of Polish trade in goods (threefold increase in the years 2004-2019) as well as liberalized access to EU transportation market and competitive prices offered. Consequently, the position of Polish transportation companies strengthened both in the area of international transport as well as transport in the territory of another EU Member State.

In 2018, Polish transportation companies accounted for 93% of the overall transportation services with the EU countries. The importance of Polish providers has been further emphasized by the fact that in six out of ten major destinations Polish companies ranked as major "foreign" provider. The volume of freight services between France and Germany rendered by Polish transportation companies in 2018 stood at 10.5 million tons (i.e. 22% of overall transportation between these two countries). The situation was comparable also in other trade in goods destinations. Polish transportation companies have become leaders of cross-border freight within the EU. The increase in significance of Polish transportation sector has prompted the adjustment of CIF/FOB methodology so that it would fully encompass the complexity of the process and the importance of Polish transportation sector.

Detailed information on CIF/FOB adjustment methodology can be found in Balance of Payments and International Investment Position Manual (BPM6) as well as the European System of National and Regional Accounts (ESA). Foreign trade statistics data (FTS) are used in the compilation of balance of payments. The FOB-type valuation applies for exported goods on the frontier of the exporting country while the CIF-type valuation applies for imported goods at the border of the importing country. The difference between the CIF value (in FTS) and FOB value (in BoP) is the cost of freight and insurance

premiums incurred between borders. Therefore, the value of freight and insurance premiums incurred from the frontier of the exporting country to the Polish border should be deducted from value of imports reported in the foreign trade statistics.

Current methodology is based on FTS, where tonnage of freight has been applied as estimation weight. Shipping costs have been estimated separately for each mode of transport (one ton of freight transported by air is valued differently than the same weight transported by road). Distance traveled to final destination has also been taken into account (full geographical breakdown included). Calculation of the total value of exports and imports of transportation services had also required the information on the share of services rendered by non-resident operators, which has been estimated separately for each mode of transport based on EUROSTAT's transportation statistics. In order to avoid data overlaps (which may potentially cause an increase in balance on errors and omissions) data on transportation contracts derived from INCOTERMS (Statistics Poland) has also been included. The new CIF/FOB adjustment methodology has influenced the value of imports of goods as well as exports and imports of services.

2. VAT fraud carousel (missing trader)

The major source of VAT gap observed in Poland have been traced back to trade in goods. In order to investigate this issue Statistics Poland has established an inter-institutional task force comprising representatives of Statistics Poland, the Ministry of Finance, the Ministry of Economic Development and Narodowy Bank Polski. The task force's report had laid grounds for foreign trade data adjustment.

The task force has emphasized a significant influence of VAT fraud on the value of exports in 2010-2015 timeframe. Upon investigating atypical observations in the time series for selected groups of exported goods, Statistics Poland identified a list of 40 items according to an 8-digit CN classification as well as time period subject to revision. Value of exports to countries where reported exports was significantly lower in the periods immediately preceding and following the carousel fraud have been revised as well as the value of exports obtained from both Intrastat and Extrastat declarations.

The mechanism of the VAT fraud in foreign trade, which is possible due to tax loops, has underlaid the estimations and methodology applied in assessing the impact of this fraud on the foreign trade statistics and national accounts. The mechanism has been identified on the basis of investigations conducted by the Ministry of Finance and the National Revenue Administration. Revision in this domain consisted in decreasing the value of exports.

3. Illegal economy

The Centre for Non-observed Economy with the Statistical Office in Kielce provides estimations of the illegal economy, which are used in national accounts and balance of payments statistics (exports and imports of goods and services). Illegal economy estimates, which encompass drugs and tobacco smuggling and prostitution, are recorded in the current account. Since 2020 alcohol smuggling has been incorporated into the illegal economy, with time series adjusted back to 2004.

Data sources used for elaborating estimates on the illegal economy comprise administrative data along with non-statistical sources such as reports prepared by research facilities and police reports.

Given that the estimated imports of alcohol exceeded its exports, the inclusion of alcohol smuggling into the illegal economy caused an increase in deficit of illegal transactions recorded in the current account. In consequence, the negative balance went up by PLN 230 million on a yearly average.

The existing estimates for drugs and tobacco smuggling and prostitution have also been subject to revision. New estimations in selected areas are different than previous ones with the biggest change referring to drugs smuggling to Poland which constituted the major share of illegal activities recorded in the balance on current account.

Shifts in the value of remaining illegal categories (tobacco and prostitution) have been significantly lower, with limited impact on the balance on foreign trade in goods and services.

4. New data source. Inclusion of VAT MOSS scheme

Widespread internet access of households allowed foreign enterprises to render cross-border services such as telecommunication, broadcasting or digital services (web hosting, software, database access, downloading applications or music, online gaming, distance learning).

Growth in these services required new data source, which would allow to quantify their volume. Following the implementation of the Council Implementing Regulation (EU) No 1042/2013 of 7 October 2013 amending Implementing Regulation (EU) No 282/2011 as regards the place of supply of services, starting from 1 January 2015 the principles regarding the place of supply of telecommunication, broadcasting and digital services to non-taxable legal persons in the European Union have entered into force. The new regulation introduced a simplification measure: the Mini One Stop Shop (MOSS). Under this scheme service providers can electronically submit VAT returns thus avoiding registering in each Member State of consumption.

Volume of these services can be assessed based on VAT returns data collected by the Ministry of Finance. The data revision has resulted in the increase of imports of digital services from ca. PLN 1 billion in 2005 to PLN 2 billion in 2019.

5. Valuables

This revision consisted in transferring selected transactions from trade in services (travel) to trade in goods and had no impact on the current account balance.

The abovementioned transfer referred to valuables which have been purchased not only to satisfy buyer's needs during the travel but especially upon return (e.g. cars, boats, camping trailers, paintings, art objects, jewelry, computers).

Revision estimate has been based on data on travel collected by Statistics Office in Rzeszów, which carries out surveys on travel related expenses of Poles abroad and foreigners in Poland.

6. Retained (reinvested) earnings attributable to collective investment fund stakeholders

Retained earnings, also known as reinvested earnings attributable to collective investment fund stakeholders should be recorded in the balance of payments and in the transition from GDP to GNI. Thus far Poland recorded only income withdrawn from such investments (dividends) which has been derived from the securities database.

Reinvested earnings, refer to the portion of investment funds income in a given period which has not been distributed to stakeholders. This income equals investment income (dividends, interest) less profit and holding gains on instruments held by the investment fund.

In order to estimate retained earnings a dedicated model has been developed. This model uses data on the investment funds' portfolios, funds' valuation adjustments and investment in collective investment funds.

Reinvested earnings against resident investment in foreign collective investment funds as well as non-resident investment in domestic collective investment funds have been assessed with this model and included in the balance of payments.