

France's current account deficit and net borrowing in the 2014 base

1 Trade deficit in goods and services, current account deficit and the nation's net borrowing

France's balance of trade in goods and services represents the difference between total imports and exports of goods and services, measured in nominal terms (at current prices).

The balance of primary incomes corresponds to the difference between primary incomes received from the rest of the world and those paid to the rest of the world. The primary incomes considered include:

- compensation of cross-border workers;
- the flows of output taxes and subsidies with the rest of the world: customs duties paid to the European Union, subsidies received from the EU under the common agricultural policy, etc.
- property income flows (interest, dividends, reinvested earnings from foreign direct investments, income of collective investment fund unit holders, etc.).

The balance of transfer incomes corresponds to the difference between transfer incomes received from the rest of the world and those paid to the rest of the world. The transfer incomes considered include, among others:

- the contributions paid (respectively benefits received) by a household residing in a country A to (respectively from) a social insurance scheme situated in a country B;
- France's contribution to the EU budget;
- current transfers between households in different countries (particularly monetary transfers by migrant workers to family members living in their country of origin).

All the primary income and transfer income flows are also called the balance of distributive transactions. **The balance of current transactions** corresponds to the sum of the balance of trade in goods and services, the balance of primary incomes and the balance of transfer incomes.

Finally, **the nation's net lending or borrowing** (depending on whether the balance is a surplus or a deficit) corresponds to the balance of current transactions plus the capital account, which is mainly accounted for by the difference between the amounts of investment aid received from other countries and that paid to other countries. When this balance is negative (as it is today), it must be financed by net capital inflows, for example by issuing debt or shares subscribed by non-residents.

2 Balances recorded in both the balance of payments and in national accounting

The balances described in the previous section exist - sometimes with slightly different names - both in national accounting and in the balance of payments (BoP). What is more, the BoP - produced by the Banque de France - is normally the main source of information used by the national accountants to value these transactions. While trade in goods is valued using customs data, it is the statistical system set up by the BoP that provides most of the estimates in the national accounts relating to trade in services, primary income flows and transfer income flows.

Even so, wide gaps have opened up over the last few years between the BoP and national accounting: **for example, the balance of current transactions for 2016 was, in the 2010 base, €38.8bn less in the balance of current transactions published by the BoP.** These differences were above all the result of

significant methodological improvements made by the BoP over the last decade to increase the accuracy of its estimates of trade in services¹ (excluding tourism) as well as primary income flows.

In addition, in April 2018 the Banque de France published new estimates of the tourism balance, tied in with an overhaul of the survey method with visitors from abroad: this has led to an improvement of about ten billion euros in France's annual tourism surplus.

Table: Evaluations by the BoP and by national accounting

	Figures for 2016 published in 2017			Figures for 2017 published in 2018		
	Balance of payments	National accounts, 2010 base	Differences	Balance of payments	National accounts, 2014 base	Differences
Balance of trade in goods and services	-26.8	-43.4	-16.6	-21.7	-25.3	-3.6
Balance of trade in goods	-26.8	-29.2	-2.4	-48.2	-41.0	+7.2
Balance of trade in services	+0.0	-14.8	-14.8	+26.5	+15.7	-10.8
<i>Services excl. tourism</i>	-1.8	-16.1	-14.3	+9.5	-1.4	-10.9
<i>Tourism</i>	+1.8	+1.3	-0.5	+17.0	+17.0	+0.0
Balance of distributive transactions	+7.8	-14.4	-22.2	+8.6	+11.1	+2.5
Primary income	+52.8	+35.5	-17.3		+56.8	
Transfer income	-45.0	-49.9	-4.9		-45.6	
Balance of current transactions	-19.0	-57.8	-38.8	-13.1	-14.1	-1.0
Nation's net lending (+) / borrowing (-)		-56.1			-12.8	

Sources: INSEE, Banque de France - billions of euros

On the occasion of the switch to the 2014 base, the Banque de France and INSEE therefore embarked on the painstaking job of trying to harmonise their estimates on the largest possible number of items (including the tourism balance). After completion of this exercise, some differences still remain, especially in the details of the transactions, but on an immeasurably smaller scale than before.

On the trade in goods, the gap has widened: -€2.4bn in the 2010 base (year 2016), +€7.2bn in the 2014 base (year 2017). This is due, among other things, to a change recently made by the BoP to the treatment of merchanting activities, i.e. the purchase and resale of goods by residents without the goods ever crossing the French border. Merchants' margins are recorded in the exports of the goods concerned, thereby impacting the balance of trade in goods. In particular, the BoP has revised merchanting activity in aeronautics substantially downwards. INSEE, however, has preferred to begin work on recasting all the estimates of resources and uses concerning aeronautical goods before returning to the new BoP estimates.

On trade in services excluding tourism, the gap has narrowed slightly: -€10.9bn in the 2014 base (year 2017) instead of -€14.3bn in the 2010 base (year 2016). Certain export items have been revised upwards to bring them closer to the BoP's most recent estimates. The substantial difference that remains - about ten billion euros - is concentrated on transport services: an overhaul of the estimates on trade in transport services will be undertaken in the next few years.

The gap in the tourism balance, which was already very low in the 2010 base, has vanished in the 2014 base. The BoP data have been symmetrically revised upwards to take better account of the numbers of tourists coming from emerging countries (whose spending is recorded in exports).

¹ One of the most noteworthy innovations concerned the estimates of trade in services by companies with transactions worth less than €30 million with foreign countries in a calendar year: the reports on transactions provided by banking institutions were abandoned in favour of a new Additional Survey of International Trade in Services (ECEIS).

As the gaps in merchandising and transport services more or less offset each other, the difference between national accounting and BoP on the total trade in goods and services is now very low: -€3.6bn in the 2014 base (year 2017) instead of -€16.6bn in the 2010 base (year 2016).

The gap in the balance of distributive transactions, which was very high in the 2010 base (-€22.2bn for the year 2016) is now very low in the 2014 base: +€2.5bn for the year 2017. The convergence effort concerned mainly primary income as this is where the main differences were concentrated. It is mainly on interest flows that the balance has been revised sharply upwards in national accounting, to move closer to the balance of payments estimates.

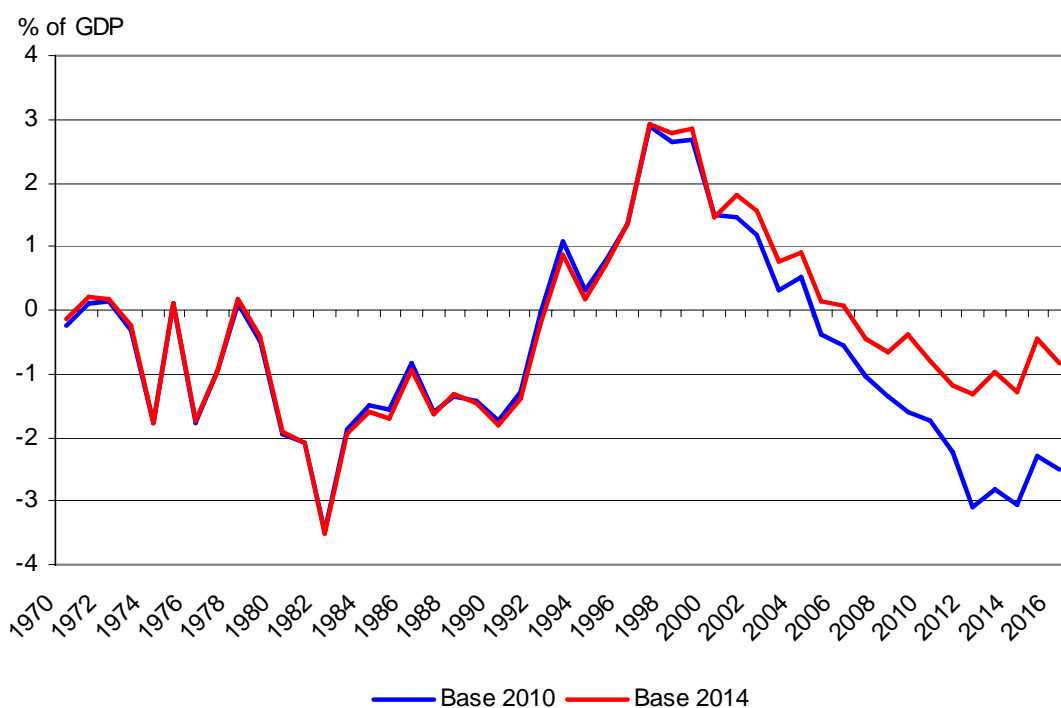
3 A much less marked deterioration in the balance of current transactions than previously

The joint work done by the BoP and INSEE's national accountants did not only consist of attempting to harmonise estimates over the most recent years: particular attention was also paid to the revision of most of the series since the beginning of the 2000s.

In particular, earlier estimates of the tourism balance by the BoP did not adequately take account of the buoyant spending of tourists from emerging countries, whose numbers have grown considerably over the last fifteen years. Tourism revenues (recorded as exports) were therefore substantially overestimated over the last few years, but not at the beginning of the 2000s when most foreign tourists came from the old industrialised countries. The revisions of the tourism balance have therefore affected the trends very substantially over the last fifteen years.

Overall, the deterioration in the balance of current transactions and the nation's net lending/borrowing since the beginning of the 2000s is much less marked in the 2014 base than in the 2010 base. In the 2010 base, after net lending peaked at 2.9% of GDP between 1997 and 1999, the balance deteriorated quite steadily until it reached a net borrowing of 3.1% of GDP in 2012 and 2014, close to the exceptionally low point of 3.5% of GDP reached in 1982. In the 2014 base, the deterioration is almost as marked and continuous, but the low point reached in 2012 and 2014 is now only 1.3% of GDP, a long way from the level of net borrowing reached in 1982.

National net lending (+) / net borrowing (-)



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INSEE,
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accounts -
2010 and
2014 bases