



13TH IMF STATISTICAL FORUM

MEASURING **CROSS-BORDER ECONOMIC** and **FINANCIAL LINKAGES** in a Dynamic World

Activities of Non-Resident VAT-Traders in the EU and the needed IMTS adjustments for BOP purposes

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Abstract

This paper explains the crucial role of Non-Resident VAT-Traders (NR-VATT) for compiling the EU goods account according to BPM6. NR-VATT are entities created abroad for tax purposes which have similarities to SPEs. In contrast to SPEs, NR-VATT must be treated as non-resident units in the country where they are registered for VAT and therefore their transactions abroad need to be combined with their parent enterprise. NR-VATT are involved in different activities that include also merchanting and global production arrangements. In International Merchandise Trade Statistics (IMTS), the main source for the BOP goods account, physical movements of goods across borders by NR-VATT recorded in IMTS need to be excluded for BOP. However, NR-VATT also engage in activities with resident entities involving change of ownership without cross-border movements and recordings in IMTS that are relevant for BOP. This document informs about activities of NR-VATT and highlights needed adjustments and their impact on BOP.

Introduction

NR-VATT entities are defined as those registered for VAT in a European Union (EU) Member State and have some similarities with SPEs because they do not have a physical presence (no employees, no premises, and no production activities). However, in contrast to SPEs they are legally domiciled and incorporated in another EU or non-EU country and do not fulfil for BOP purposes the BPM6 residency criteria. The establishment of such units is driven by the requirements of the EU VAT legislation for separate VAT registration for enterprises intending to conduct business in another Member State¹.

Activities of NR-VATT are often confined to trading by physically moving goods to, from, or within the Member State or a non-EU country of VAT registration. The goods may be further traded, stored by renting storage services from resident units or handed over to a contractor for processing. For BOP purposes transactions carried out by these entities abroad have to be combined with their parent enterprise and allocated to the country of residence of the parent enterprise. In addition, the physical cross border movements of goods by NR-VATT that are recorded in IMTS (which is the main source for compiling the BOP goods account) have to be excluded for compiling BOP exports and imports of goods according to BPM6 recording standards.

The correct treatment of NR-VATT in BOP statistics is a crucial aspect of the EU statistical framework. Eurostat aims to ensure that BOP data collected from the EU Member States accurately reflects the economic activities of NR-VATT in accordance with the BPM6 change of economic ownership principle².

Identification of NR-VATT

According to BPM6 para. 4.135, to be recognized as a resident unit, an entity that does not have a physical presence must also be legally domiciled or incorporated in the country in which it is registered for VAT purposes. This differentiates NR-VATT from SPEs that are legally domiciled in the countries where they are established and for which transactions must not be combined with their parent enterprises.

The correct identification of NR-VATT, particularly through VAT numbers, is essential for correctly tracking cross-border transactions within the EU and differentiating them from just physical movements. The way NR-VATT can be identified depends on the available data sources and varies from country to country.

Eurostat organized a dedicated workshop in April 2024 to discuss with BOP compilers from EU Member States the various data sources that are available at national level to identify NR-VATT and to correctly address its activities for BOP.

¹ Council Directive 2006/112/EC on the common system of value added tax

² This document is based on the following official publication by Eurostat that addresses the treatment of NR-VATT including more information about concrete data sources for compilers:
<https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/w/ks-gq-24-020>

Based on the presentations and discussions at this workshop it turned out that the situation is rather heterogeneous among EU Member States. In some countries BOP compilers have access to granular data and all other needed information to carry out the necessary adjustments in a comprehensive way while for others less information is available. One potential approach that was considered to be rather accurate to correctly identify NR-VATT is to use information from the national Statistical Business Register (SBR) which includes all entities that show economic activity in the economy. In the SBR usually supplementary information at entity level, such as the legal domicile of the enterprise, the economic activity based on ISIC, social insurance data related to employment and physical presence as well as VAT returns, is available. This allows identifying entities that have to be considered as non-residents according to BPM6 standards because they lack physical presence, are legally domiciled abroad and, according to their ISIC classification, do not own real estate (notional units). For correctly determining the population of NR-VATT, information from IMTS needs to be combined at entity level with the SBR to reveal the units that report imports and exports in IMTS and are considered to be non-resident units.

To achieve this crucial task National Statistical Institutes that usually are in charge of the SBR and of collecting data for IMTS should closely cooperate with their National Central Banks that are responsible for compiling BOP. Exchange of information and collaboration is also needed with tax and customs authorities responsible for the registration of NR-VATT. Compilers should also gather qualitative and quantitative information necessary to identify relevant transactions undertaken by NR-VATT. Finally, it should be highlighted that for very large cases data exchange between countries can be essential to prevent information shortages regarding NR-VATT in the compiling economy and the foreign activities of resident units.

Exclusion of transactions by NR-VATT

This section focuses on the exclusion of NR-VATT transactions recorded in IMTS from BOP. Despite the fact that physical cross-border movements of goods by NR-VATT are measured in IMTS, these transactions should be excluded from BOP as there is no change in economic ownership between a resident and a non-resident unit.

In practice, numerous cross-border transactions conducted by NR-VATT can occur. In the EU single market with the free movement of goods, foreign traders can engage in such transactions across multiple EU Member States, which may or may not be relevant to the compiling economy.

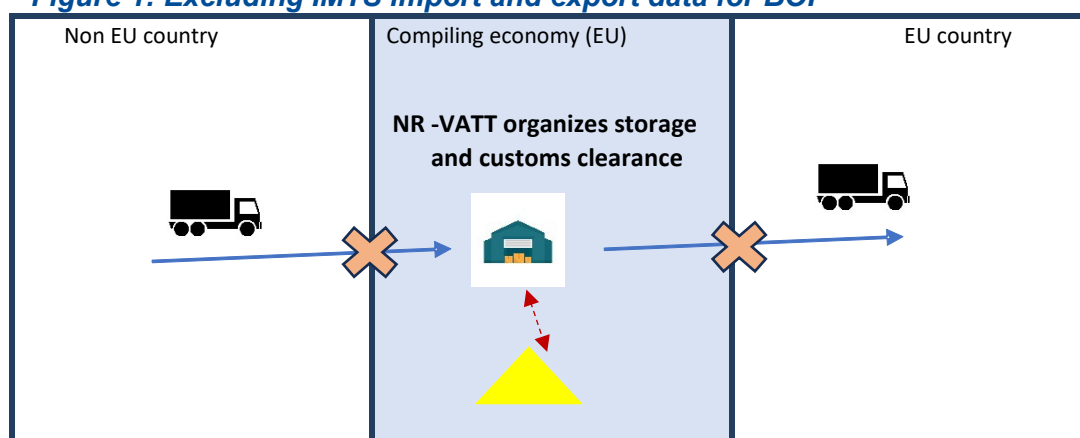
Case 1 - Excluding IMTS import and export data for BOP related to quasi-transit trade

Quasi transit trade is a specific phenomenon which is highly relevant for the EU, as the latter constitutes a customs union. In the EU imported goods can be declared for customs either directly at the border (for example, at a port in the Netherlands) or in the country that actually imports the goods. The following example highlights the need to adjust IMTS for BOP purposes in case customs clearance is done directly at the border and not in the country where the buyer is resident.

A NR-VATT imports goods from outside the EU into the economic territory of one EU Member State, stores the goods for a short time in a warehouse to carry out customs clearance and

subsequently exports the goods to the final customer which is resident in another EU Member State (see Figure 1). There is no change of economic ownership from the point of view of the economy where custom declarations are made. Consequently, the respective NR-VATT reporting in IMTS has to be identified and both the inflow of goods that are recorded as extra-EU imports in IMTS and the outflow of goods, reported as intra-EU exports in IMTS must be excluded from imports and exports in BOP. In IMTS often, the value of goods that are physically exported differs from the value of the goods when they are physically imported creating also an impact on the goods account balance in case these physical movements are not removed for the economy where customs clearance is made.

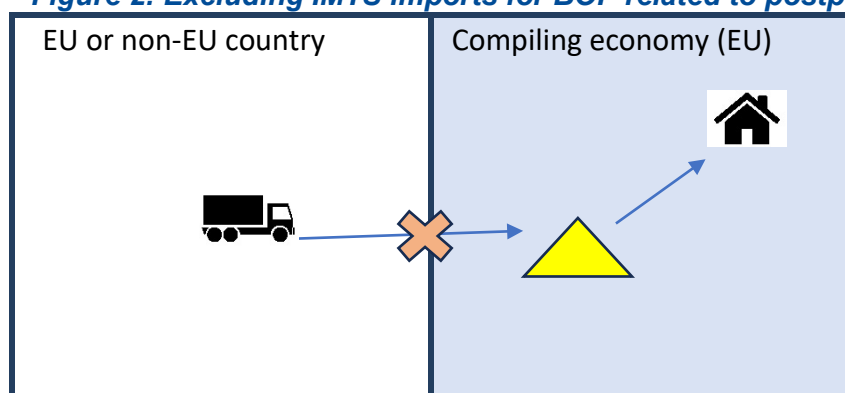
Figure 1: Excluding IMTS import and export data for BOP



Case 2 - Excluding IMTS imports for BOP related to postponed sales

A NR-VATT imports goods into the economic territory of a compiling economy, stores the goods in a warehouse and sells them after some time in the domestic market to a resident unit (see Figure 2) The period and the value of goods entering physically the country which are reported as imports in IMTS may differ from the actual time and also the reported trade value between the resident and the NR-VATT in the domestic market due to warehousing costs, or re-packaging activities, etc. According to BPM6 recording standards, the change of economic ownership occurs not when the physical cross border movement takes place but when the transaction between the resident unit and the NR-VATT happens. Therefore, these imports of goods in IMTS by NR-VATT have to be identified and must be excluded for BOP purposes. However, when the goods are finally sold, the transaction between the NR-VATT and the resident unit has to be included as imports for BOP.

Figure 2: Excluding IMTS imports for BOP related to postponed sales



Inclusion of transactions by NR-VATT with resident entities

This section elaborates on the inclusion of specific NR-VATT transactions in BOP. The NR-VATT are subject to VAT in the compiling economy and can conduct transactions with resident entities without any physical cross-border movements within the compiling economy. Although these transactions will not be recorded in the IMTS, they should, according to BPM6, be included in the import and export figures of the BOP. Sales recorded by NR-VATT to entities resident in the compiling economy are treated as imports in the BOP, while purchases from the entities resident in the compiling economy are treated as exports in the BOP.

Case 3 – Including inverse merchandising

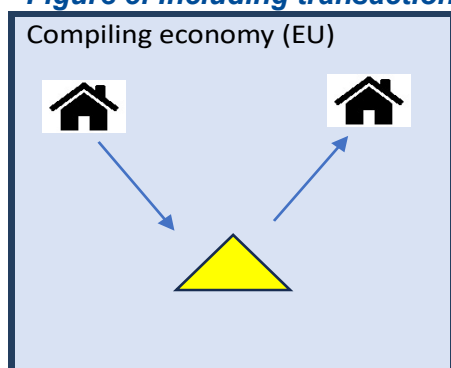
In their role as acting as merchants on behalf of their parent enterprise abroad, NR-VATT purchase goods from a resident seller within the compiling country and subsequently sell these goods without any further physical transformation to another resident buyer within the same country with a profit. Throughout this process, the goods do not physically leave the territory of the compiling economy and therefore no cross-border movement of goods takes place (see Figure 3).

The primary aspect of this transaction is the change in economic ownership from a resident seller to the non-resident parent of the NR-VATT, and then from the non-resident parent of the NR-VATT to a resident buyer. This scenario is defined as "inverse merchandising" because it resembles merchandising activities but occurs entirely within a single economic territory. This differs from traditional merchandising, which typically involves cross-border trade where the goods purchased by a merchant are sold to another country without entering the merchant's country.

According to the BPM6 para. 10.45, such transactions should be classified under "general merchandise" for the compiling Member State. The BOP goods account of the compiling economy should reflect that a change of economic ownership happens twice. First, as export of general merchandise when the goods are sold to the non-resident merchant and, second, as import of general merchandise when the goods are subsequently purchased from the non-resident merchant. In the country where the NR-VATT is resident, these transactions should be classified under "merchandising".

Identifying inverse merchanting can be challenging due to the absence of physical cross-border flows and the resulting absence of information in customs declarations and consequently in IMTS data. To identify these transactions, data compilers must utilize information from domestic VAT returns that include the purchases and sales.

Figure 3: Including transactions between a NR-VATT and two resident units



Case 4 – Transactions for processing within global manufacturing arrangement

The final example in this section highlights the activities of a NR-VATT within a global production arrangement. In this particular case, the values reported by the NR-VATT in IMTS must be identified and excluded, while transactions with resident enterprises should be included for the compilation of BOP data.

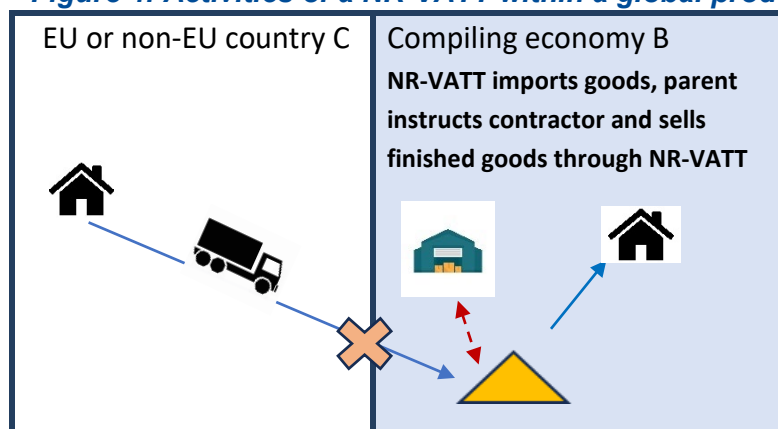
An enterprise in Member State A establishes a NR-VATT in country B (see Figure 4). The NR-VATT purchases unfinished goods from an enterprise resident in economy C and imports these into country B. Subsequently, the parent company of the NR-VATT instructs a contractor resident in B to process the unfinished goods. Upon completion of the processing, the finished goods are sold through the NR-VATT to the customer which is a resident unit of B.

For Member State A the activity of its NR-VATT abroad is classified as a processing case within a global production arrangement. For the compiling economy B, the purchase of unfinished goods by the NR-VATT in country C needs to be removed from its IMTS imports for BOP purposes. The fee paid by the NR-VATT to the contractor should be recorded by economy B as exports of processing services to economy A. Finally, the sales of the processed goods through the NR-VATT to an enterprise resident in economy B are not included in IMTS but have to be recorded as imports of goods by country B from economy A.

For country B, the relevant transactions in the BOP goods and services account occur when the NR-VATT purchases the processing service from the contractor and when the processed goods are sold to the enterprise in economy B. For the treatment of these imports of goods from the NR-VATT, it is crucial to highlight that country A, where the NR-VATT and its parent enterprise are resident, needs to be recorded by economy B as the counterpart and not the country breakdown provided by IMTS which only covers the unfinished goods from country C. This approach ensures the correct application of the change of ownership principle with the accurate

recording of transactions in the financial account and prevents potential double counting of imports from a non-EU Member State C in the EU aggregates³.

Figure 4: Activities of a NR-VATT within a global production arrangement



In order to be able to correctly compile transactions of NR-VATT with resident units for BOP purposes the compilers must therefore utilize information from various administrative sources, such as VAT returns, to identify transactions between NR-VATT and resident entities. This information is not available in IMTS, the traditional main source for the goods account of the BOP.

Finally, as it may be challenging for the compiler in country B to correctly record the purchase of processing services by the NR-VATT based on information from its VAT declarations, there is a risk of categorizing them by default under exports of goods rather than exports of services. Typically, relevant exports of processing services should be captured by the International Trade in Services Survey (ITSS) but it could happen that a company declaring ITSS transactions excludes transactions with a NR-VATT as the latter has a national identifier. To avoid discrepancies between goods and services and potential double counting of exports under goods and under processing services due to adjustments for NR-VATT, large purchases by NR-VATT from domestic entities should, if possible, be cross-checked with detailed data from ITSS⁴. For instance, the enterprise name and residency of the NR-VATT reporting the largest purchases from resident enterprises in their tax declarations could be used to cross-check with resident enterprises that record significant provisions of processing services to validate whether goods or services are provided and ensure that the reported figures in ITSS align with the VAT declarations.

³ Under the assumption that Member State A also manages to correctly identify this global production arrangement in its BOP data.

⁴ This cross-checking needs to be done only for services exports because it is unlikely that an NR-VATT provides services to the compiling economy that would need to be recorded as imports.

Mirror transactions

This section focuses on the treatment of VAT traders (VATT) that domestic enterprises establish abroad from the perspective of a compiling economy where these enterprises are resident. Entities of a compiling economy can be registered for VAT purposes in other EU Member States. However, the VAT registration itself is not sufficient to constitute a separate institutional unit abroad according to the BPM6 residency criteria. Therefore, all economic activities of these resident entities registered for VAT abroad, which involve a change of ownership, need to be combined with the activities of the resident parent enterprise and must be recorded for BOP purposes using additional data sources, as they are (with the exception of physical movements related to quasi-transit) not included in the IMTS data of the compiling economy⁵.

From the perspective of the Member States where the VATT is registered and treated as a non-resident entity, the transactions that need to be recorded by the country where the VATT is resident can be considered mirror transactions. Correct identification and recording of the geographical counterparts for these transactions are essential to avoid bilateral asymmetries between the country where the VATT is resident and the country where this entity is registered for VAT purposes. For compiling accurate EU aggregates a harmonized recording between the two affected EU Member States is needed.

However, the various transactions in trade in goods of the resident VATT abroad are not included in IMTS of the compiling economy and therefore other data sources, such as a specific survey among enterprises, are needed to capture these activities in BOP. Another option to detect and quantify these transactions abroad is the use and comparison of information from additional data sources like the structural business survey (SBS), business reports and tax data at enterprise level.

The SBS or business reports normally inform about revenues and expenditures of the parent enterprise including also all activities of resident VATT abroad. VATT abroad are required to have all their transactions in the accounts of the parent enterprise and are therefore not seen as separate units within an enterprise group. In contrast to SBS, VAT statistics exhibit separately taxable domestic revenues and expenditures and therefore exclude activities of the resident VATT abroad.

For revenues, the difference between the value reported in SBS and the one available from the VAT returns regarding domestic sales should exactly match the amount of exports of goods and services. IMTS figures may need to be adjusted if the value in SBS or in the business report is significantly higher than the combined value of taxable domestic revenues plus IMTS exports of goods and surveyed services, under the assumption that cross border services are either minor or captured well by ITSS.

There are several activities where transactions of the resident VATT abroad carried out on behalf of the parent enterprise need to be included for BOP. Such activities include

⁵ Activities related to warehousing between the parent enterprise and the VATT abroad where the warehouse is located involve only a physical cross border movement but no change of economic ownership. These activities might be included in IMTS of the compiling economy and need to be removed for BOP purposes.

merchanting, global production arrangements as well as postponed exports (sales) and imports (purchases) that take place after the physical cross border movement with a different price compared to the reported values in IMTS. Compilers have to address transactions by resident VATT abroad to avoid discrepancies between the various data sources and to ensure a comprehensive recording in BOP according to the BPM6 recording standards.

In order to distinguish between these different activities, the compiler could check if significant imports of processing services are reported in ITSS or not. In addition, reported intermediary consumption in SBS or in the business reports could be scrutinized to check if imports of goods based on ITGS values are plausible or need to be adjusted as well to take into account purchases of goods abroad due to merchanting activities or global production arrangements.

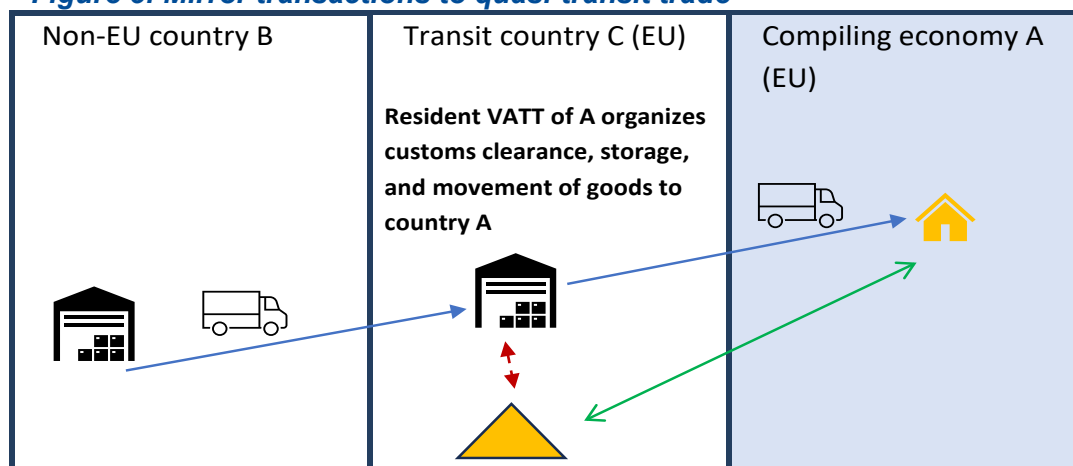
Case 5 – Imports for the compiling economy as mirror transactions to quasi-transit trade

The first case concerning the recording of mirror transaction refers to the previously mentioned Case 1 where a resident enterprise of EU Member State A registers a VATT in Member State C (see Figure 5) for quasi-transit trade purposes. The green line in this figure shows that the resident VATT abroad is not a separate institutional unit and that all transactions need to be consolidated with its parent enterprise. The blue line displays the physical movement of the goods and the red line highlights potential services transactions between the VATT abroad and enterprises resident in economy C.

An enterprise resident in EU Member State A imports goods from a non-EU country B. The goods from country B arrive physically in Member State C, where the established NR-VATT (non-resident from the country C perspective) handles the customs declaration and temporarily stores the goods in a warehouse. Afterwards, the goods are physically moved from country C to economy A without any physical transformation. Thus for country C, the inflow and outflow of the goods are considered quasi-transit trade, need to be excluded from their IMTS and are not considered import and export of goods for BOP purposes. For the compiling economy A, the change of ownership occurs vis a vis economy B and the recorded imports of goods in BOP should reflect that. Potential services related to warehousing, customs procedures, and transport purchased by the established NR-VATT in economy C need to be recorded as imports in the services account.

In order to capture activities of this VATT abroad, no extra adjustments for BOP are needed and compilers in economy A must just use information from their IMTS to record correctly imports from country B based on the country of origin and not incorporate information about the country of consignment. This approach ensures harmonized recording between the non-EU country B, which records exports of goods to country A, and economy C, which excludes the relevant physical movements of the goods carried out by the VATT resident in economy A. To obtain information about the services purchased by the VATT abroad, country A needs to include the resident enterprise that established the VATT in country C in its ITSS. Instructions in ITSS surveys should make it clear that transactions through NR-VATT of resident enterprises should be included in the declarations.

Figure 5: Mirror transactions to quasi-transit trade



Case 6 – Exports for the compiling economy as mirror transactions to postponed sales

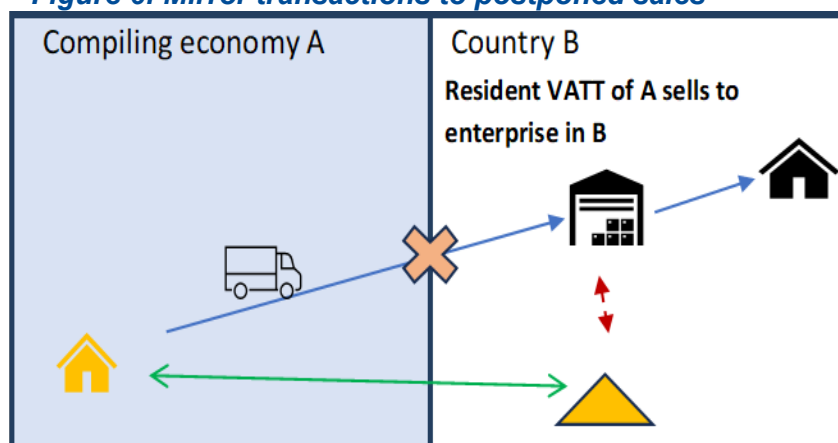
The second case for recording the activities of a VATT abroad refers to the previously mentioned Case 2, which elaborates on these imports from the perspective of the country where the NR-VATT is registered. For the economy where the VATT is resident this scenario can be considered as exports that take place after the physical border movement during another period and with a different valuation than in IMTS.

A resident enterprise of compiling economy A registers a VATT in EU Member State B (see Figure 6). The VATT physically moves goods from economy A to Member State B, stores the goods in a warehouse for a period, and finally sells the goods to an enterprise resident in Member State B.

For country A, no change of ownership takes place when the goods physically cross the border and are stored in the warehouse. In BOP, an export should only be recorded for country A when the goods are finally sold by the established resident VATT in country B to a resident enterprise of EU Member State B, reflecting the change of ownership and the accrual-based recording principle. The period and the sales price may differ from the value reported in IMTS when the goods physically crossed the border.

For such cases, only limited information is available to the compiler in country A. As an approximation, values on cross-border transactions from ITGS can be used as a starting point. Physical movements between the parent enterprise and the VATT abroad for which no change of ownership takes place may be identified in the European IMTS under the nature of transaction (NoT) code 31. To correctly capture the activities of the resident VATT abroad for this specific case and to avoid bilateral asymmetries with country B, the compiler in economy A may use additional information for this enterprise. Such data sources include the SBS, tax information about domestic sales and business reports. This approach should enable the compiler to cross-check, detect, and if needed correct significant deviations between IMTS values and the value of final sales including the right period to the unit in country B.

Figure 6: Mirror transactions to postponed sales



Case 7 – Merchanting for the compiling economy as mirror transactions for inverse merchanting

This example discusses the mirror transactions for the country where the VATT is resident, related to merchanting activities, and refers to the previously mentioned Case 3.

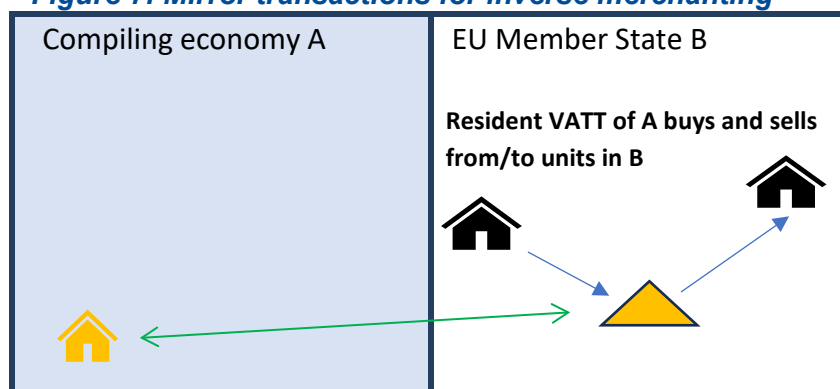
An enterprise resident in economy A registers a VATT in EU Member State B (see Figure 7). If this VATT, who is resident in country A, purchases goods from a resident unit of Member State B and subsequently sells them without any physical transformation to another resident unit of Member State B, these transactions are classified as goods under merchanting for economy A and inverse merchanting for country B.

For economy A, transactions of the VATT abroad should be recorded in the BOP as goods under merchanting. The purchase should be treated as an export with a negative value, and the sales of the goods to another resident unit of Member State B should be recorded as an export. In the compiling economy A, merchanting transactions of the resident VATT abroad are typically covered by specific enterprise surveys or other data sources focused on merchanting transactions abroad. Due to the absence of physical cross-border movements relevant for the compiling country A, merchanting is not included in its IMTS.

Achieving a consistent recording in BOP between economies A and B will only be possible if B also adjusts its IMTS to include the transactions of this NR-VATT with domestic units. Such adjustment ensures that both economies accurately reflect the economic activities related to these transactions and that the goods account balance will be the same in the two relevant countries⁶.

⁶ Due to the different treatment of merchanting transactions for the economy where the merchant is located and the economy where the seller and buyer are resident, bilateral discrepancies regarding the exports and imports of goods will nevertheless arise.

Figure 7: Mirror transactions for inverse merchandising



Case 8 - Mirror transactions for processing within a global production arrangement

The final case of mirror transactions addresses the activities of a resident VATT abroad within a global production arrangement and relates to the previously mentioned Case 4.

An enterprise resident in compiling economy A registers a VATT in EU Member State B (see Figure 8). The VATT purchases unfinished goods from a unit resident in a non-EU Member State C and imports them into EU Member State B. Subsequently, the parent enterprise of the VATT instructs a contractor resident in B to process the unfinished goods. Upon completion of the processing, the finished goods are sold by the VATT to another resident unit of economy B.

For compiling country A, the activity of the resident VATT abroad is classified as a processing case within a global production arrangement. For A, the purchase of the unfinished goods by the resident VATT should be recorded as an import of goods from country C in BOP. Additionally, the fee paid to the contractor for processing services should be recorded as an import of processing services from economy B. Finally, the sales of the processed goods by the VATT should be recorded as an export of goods to B.

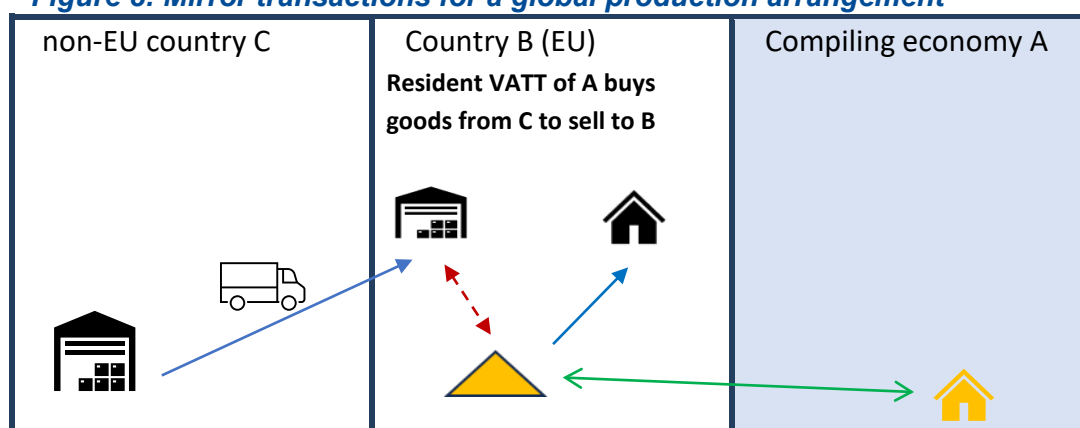
The relevant transactions in the goods account for the compiling economy A, where changes of ownership occur without physical cross-border movement, must be identified and included in BOP either by implementing a dedicated survey among relevant enterprises, extending the scope of the ITSS to cover also these specific goods transactions, or by using information from additional data sources like business reports, tax data or SBS. These sources may include information on intermediary consumption as well as total and domestic sales for this specific enterprise. To detect such global production arrangements abroad, a precise analysis of those additional data sources with BOP data at enterprise level is needed in case no dedicated survey is set up.

For example, the existence of large inconsistencies between reported total revenues in the SBS or business reports compared with the values of exports included in BOP plus information about domestic sales from tax data, and significant imports of processing services reported in ITSS, could be a helpful hint for identifying such a specific global production arrangement. This discrepancy may indicate the need for adjustments to ensure accurate quantification. In addition, a direct contact with the resident enterprise that established the VATT in economy B may be necessary to verify estimated values for the goods account and obtain more information about the correct country breakdown for these transactions related to goods that do not cross the border of the compiling economy as well as the overall business model. This step is crucial if

significant inconsistencies between the final values from various data sources are detected over a longer period and substantial imputations for transactions in the goods account, which are not covered elsewhere, are needed.

Achieving harmonized recording of this specific global production arrangement between country A and B will only be possible if country B also adjusts its IMTS data to exclude and include the relevant transactions of the NR-VATT that are described under Case 4.

Figure 8: Mirror transactions for a global production arrangement



Numerical impact of adjustments for NR-VATT on the intra-EU BOP goods account

The figures in Table 1 show that the adjustments to IMTS for BOP purposes during reference year 2023 addressing activities by NR-VATT are, in numerical terms, the largest ones on the export (-191 billion €) and import side (-119 billion €), exceeding for example the value of the CIF/FOB adjustment (-64 billion €) or the inclusion of goods under merchanting (+92 billion €). It has also to be noted that currently only 11 out of the 27 EU Member States are carrying out the adjustments for NR-VATT, in contrast to 26 out of the 27 countries that compile the CIF/FOB adjustment or include goods under merchanting in their BOP data. Some large EU Member States have not started yet to correct their BOP data for activities by NR-VATT. A conservative estimate is that the corresponding corrections on the export and import side for NR-VATT activities could be 50% - 100% higher compared to the current values once this is done by almost all 27 countries.

Finally, adjustments for activities by NR-VATT also reduce the intra-EU asymmetries in the BOP goods account by a significant amount (-72 billion €). Most of the observed intra-EU asymmetries come from IMTS according to which in 2023 exports are 102 billion € higher than corresponding imports. Since in IMTS exports are valued on a FOB basis and imports on a CIF basis, the value of imports should in theory always exceed the value of exports. Whenever this is not the case, the CIF/FOB adjustment carried out for BOP purposes to bring the valuation for exports and imports in line results in higher asymmetries.

For goods under merchanting a similar issue arises because IMTS is capturing only the physical movements between the buyer and the seller of these goods, excluding the merchant and his margin that is only recorded in BOP. In theory the country where the seller of the goods is

located should record the value received from the merchant in its IMTS and the country where the buyer is resident should record the amount that was paid. This should lead to a situation where imports of goods related to merchanting transactions would be higher than the corresponding exports in IMTS. This difference would be eliminated for BOP by including the collected margins of the merchant under net exports of goods under merchanting. However, this adjustment will further increase asymmetries in case IMTS exports exceed imports.

Table 1: Intra-EU IMTS/BOP reconciliation table

2023 Figures in billion €	Exports	Imports	Asymmetry	Carried out by
Intra-EU IMTS data	4.095	3.993	102	
Total adjustments for BOP purposes	-120	-118	-2	
(-) CIF/FOB adjustments	0	-64	64	26/27 EU Member States
(+/-) Net exports of goods under merchanting	92	0	92	26/27 EU Member States
(+) Illegal goods and smuggled goods	7	4	3	20/27 EU Member States
(-) Adjustments for activities by NR-VATT	-191	-119	-72	11/27 EU Member States
(+/-) Other adjustments	-27	61	-88	
Intra-EU BOP goods account	3.975	3.875	100	

Conclusion

The figures exhibited in Table 1 demonstrate the significant quantitative impact of this specific adjustment item and the crucial role of NR-VATT for compiling the goods account in the EU according to BPM6. Therefore, Eurostat will continue to discuss with the EU Member States further improvements of their approaches to correctly address NR-VATT activities for BOP and, even more importantly, to encourage the remaining countries that have not started yet to implement these adjustments to achieve an even more harmonized BOP intra-EU goods account.

At EU Member State level adjustments of IMTS for activities by NR-VATT lead to an improved geographical breakdown of the BOP goods account because the counterpart countries are now determined based on change of ownership and disconnected from the country breakdown in IMTS that reflects physical cross border movements of goods. In addition, there should be also a positive impact on net errors and omissions since the valuation of exported and imported goods based on VAT declarations reflect in contrast to values in IMTS transactions between resident and non-resident units and are more aligned with the corresponding recordings in the financial account.

For policy decision makers in the EU a BOP goods account that is corrected by activities of NR-VATT will provide more precise insights about the actual counterpart countries and their importance as well as more reliable information about the true value of exported and imported goods.

Eurostat also plans to reach out to non-EU countries to find out whether such entities exist outside the EU as well that are established by enterprises resident in the EU and conduct transactions on behalf of their parent entity abroad and to inform them about their NR-VATT in the EU for which adjustments may be needed as well to increase the quality of BOP data.

Finally, the BPM7 elaborates more on the various global production arrangements and provides clear guidance how to record them. The provided recommendations of the BPM7 will be used as a supporting argument to all EU Member States that are currently not addressing NR-VATT to start doing so when BPM7 will be implemented in the EU in autumn 2030.