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Questions and Answers: European System of Accounts 2010

What is the European System of Accounts?

The European System of National and Regional Accounts (ESA) sets down the harmonised methodology which must be used for the production of national accounts data in the EU. It is crucial to have such a methodological rulebook in the EU, in order to ensure that statistics on Member States' economies are compiled in a consistent, comparable, reliable and up-to-date way.

ESA is internationally compatible, making it possible to describe the total economy of a region, country or group of countries, in a way that is reliably comparable with other economies.

Why is the European System of Accounts important?

In Europe, national accounts have a vital role. They underlie many of the indicators that constitute the backbone of EU economic governance. European fiscal policies under the Excessive Deficit Procedure are determined on the basis of the ratios of public deficit and debt. Several of the indicators in the Macroeconomic Imbalances Procedure are based on national accounts. Quarterly growth rates of gross domestic product (GDP) are an important background element in the monetary policy of the Eurozone. National accounts are used to calculate each country's gross domestic income (GNI), and as such, contributions to the EU budget. Moreover, regional GDPs are used to rationally distribute structural funds. This explains why, in Europe, the highest comparability and accuracy is needed.

Why is a new European System of Accounts being introduced?

The current methodological framework for producing national accounts data (ESA 1995) will be replaced in September 2014 with a new European System of Accounts (ESA 2010). ESA 2010 will revise and update the common standards, classifications and accounting rules for Member States in drawing up their national accounts and transmitting their data to Eurostat.

Over the last twenty years, substantial changes have impacted economies, in particular the increasing role of ICT in production processes, the growing importance of intangible assets, intellectual property products and services, and the globalisation of economic systems. The way in which macroeconomic statistics are compiled needs to be adjusted accordingly, to reflect these changes.

National accounts are at the core of economic statistics, and provide the statistical framework for analysing economies. They therefore have to be kept in line with structural economic changes in order to maintain their relevance. At the same time, there is also a need to provide more timely information to users of this data.

This adaptation of the system of accounts is not only European, but world-wide. Europe's ESA 2010 is the sister of the SNA 2008, which is in the process of being implemented all around the world. The USA implemented it in August 2013. And Europe will implement it in 2014, in a coordinated way.

What are the main changes that ESA 2010 will introduce?

The main methodological changes made under ESA 2010 are:

- Recognition that expenditure on **research and development has the nature of investment**. Research and development expenditure is recorded as gross fixed capital formation and no longer as current expenditure. This will increase EU gross domestic product by around 1.9%. The identification and treatment of research and development expenditure as investment is very important in the context of the Europe 2020 strategy.
- Recognition that expenditure on **weapon systems has the nature of investment**. Because of their potential destructive nature, the previous ESA recorded them as immediately consumed. The new system realistically recognises their productive potential for the external security of a country, over several years. This identifies them as gross fixed capital formation. This will increase EU gross domestic product by around 0.1%.
- The value of **goods sent abroad for processing** will no longer impact gross exports and imports figures, because ESA 2010, in the light of globalisation, uses a change in ownership approach and is no more based on physical movements. ESA 2010 just records an export processing service. This will slightly reduce the level of exports and imports, but will not affect the overall current account balance.
- A **more detailed analysis of pension schemes** is presented. A compulsory supplementary table will transparently show the liabilities of all pension schemes, including those of government whether unfunded or funded, in order to improve comparability between countries.
- ESA 2010 should significantly **improve the measure of the contribution of insurance services to GDP**. Under the previous system, this contribution was based on the difference between premiums and claims. As the level of claims may be quite volatile (catastrophes are more and more frequent), the result was itself volatile. In ESA 2010, the formula of calculation of the non-life insurance output has been amended in order to smooth the level of this output.
- The new ESA 2010 **transmission programme will allow an improved monitoring** of economic changes in the next 15 years. More complete balance sheet data will be available, also more quarterly variables, with improved timeliness and seasonal adjustment, and a complete new set of data on potential obligations of government.

Will the methodological changes introduced by ESA 2010 have an impact on Gross Domestic Product data?

Member States have been asked by Eurostat to deliver very preliminary estimates of the impact of ESA 2010 changes on their GDP. It is important to stress that the figures presented in the table below only relate to the methodological changes introduced by ESA 2010, and not to possible statistical changes (improvement of data sources, new data sources). It is only after the transmission by Member States of their new ESA 2010 data, in September 2014, that the total impact of methodological and statistical changes of ESA 2010 will be able to be presented.

The weighted average impact on GDP of methodological changes is an increase of 2.4%, of which +1.9 (around 80% of the total impact) is due to the capitalisation of research and development. The remaining methodological impact is due to different elements, the most important of which is capitalisation of military expenditure which represents +0.1.

The impact differs among Member States. These differences are in the first place due to the variability of the expenses in R&D between the different Member States.

By way of comparison, it is worth mentioning that, in the United States, the introduction of the new international standards led to an increase of 3.5% of GDP for years 2010 to 2012, with the capitalisation of research and development accounting for 2.5%. However, taking into account that changes which impact by 0.5% the US GDP (capitalisation of entertainment, literary and artistic originals) were already included in EU GDP according to ESA 95, we should consider that the weighted average impact of 2.4% in Europe should be compared to 3% in United States (of which research and development 1.9% and 2.5% respectively).

Table – Estimated impact of the methodological changes of ESA 2010 on Gross Domestic Product

First preliminary estimates - Reference year: mainly 2011

<u>Percentage of GDP increase</u>	<u>Number of countries</u>	<u>Countries</u>
0 to +1%	5	LV, LT, HU, PL, RO
+1 to +2%	9	CZ, EE, IE, ES, IT, LU, PT, SI, SK
+2 to +3%	4	BE, DK, DE, FR
+3 to +4%	3	AT, NL, UK
+4 to +5%	2	FI, SE
TOTAL	23	
No estimates provided yet	5	BG, EL, CY, MT, HR

What has Eurostat done to ensure the smooth transition to the new European System of Accounts?

Eurostat has put in place a web site dedicated to the implementation of ESA 2010 http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction

In order to help Member States to prepare the implementation of ESA 2010, Eurostat has issued a "Manual on the changes between ESA 95 and ESA 2010". This manual presents each change, illustrated with numerical examples. It will be available on the website dedicated to the implementation of ESA 2010.

Eurostat has also prepared a training programme on main changes and has developed specialised implementation manuals to help Member States in their adaptation of national accounts. This material will be available on the dedicated website. An important event that will mark the adoption of ESA 2010 will be a high level National Accounts conference, planned in June 2014 in Luxembourg. This conference is meant to illustrate the many innovations in national accounts with the implementation of ESA 2010, but also the research agenda in this important field of statistics.