

# Implementation of ESA95...

## MAJOR PROGRESS BY STATISTICIANS TO IMPROVE THE NATIONAL ACCOUNTS

With today's publication of the new data for the European Union and the euro zone - which are now based on the ESA95 version of the European System of Accounts - **Eurostat, the Statistical Office of the European Communities in Luxembourg**, has made major progress, in conjunction with the Member States, in improving the quality, the reliability and the comparability of national accounts data. This is the result of a long-term exercise conducted both at international level (UN, IMF, OECD) and within the EU. It culminates in modernisation of concepts to reflect new economic phenomena, increasingly harmonised methodology, greater precision in accounting rules and definitions and a wider coverage of the whole range of economic activities. In addition, the implementation of ESA95 has been the opportunity for every Member State to improve its sources and its methods of evaluating the accounts.

### Limited impact on GDP and GNP

Most of the Member States<sup>1</sup> have now communicated their data compiled according to ESA95. These data show that ESA95 has only a limited impact on GDP (gross domestic product) and GNP (gross national product) figures by comparison with the former ESA79. Although the impact is more marked on certain components, branches of activity or variables, the effects tend to offset each other in the total. Most of the Member States show a slight increase in GDP according to ESA95, when the figures are compared with those for the same year calculated using ESA79. For the base year 1995 the increase is +2.0% for EU15 and 1.9% for euro zone.

### Impact on Community policies

GDP data play a crucial role as an indicator of the economic development of EU15 and the euro zone and for monitoring the growth and stability pact, as the denominator for calculating government debt and deficit rates, for the requirements of the structural and cohesion funds and for enlargement, but also - as GNP - in the Union's system of own resources.

- The increase in GNP using the new ESA will however have no immediate effect on the level of the Union's own resources, which will continue to be based on ESA79 data until the system of own resources is reviewed.

1. Data have been received from the following Member States: Belgium, Denmark, Germany, Spain, France, Ireland, Italy, the Netherlands, Portugal, Finland, Sweden and the United Kingdom.

- With regard to the use of GDP as the denominator in debt and deficit ratios, the changeover to ESA95 will be made for the first time for the notification scheduled for March 2000, in accordance with the provisions of Council Regulation 2223/96 (ESA95 Regulation).
- As for the structural funds, ESA95 will have no effect in the immediate future, since eligibility of the regions until 2006 was recently decided on the basis of ESA79. First regional data according to ESA95 will be available towards the end of 1999 for certain Member States.

### **Evolution, not revolution**

The new ESA is primarily an *evolution* and a refinement of the old system rather than a *revolution*. The main changes are:

- The actual final consumption of households covers all consumption, including any financed by general government. This means expenditure relating to education, for example, is included in the final expenditure of general government as well as in the actual final consumption of households.
- The concept of investment has been expanded and now includes intangible investments such as computer software and literary and artistic originals, and also mineral exploration. Military durables such as buildings, schools, hospitals and lorries, etc, that were formerly treated as current expenditure, are now included. In the case of financial leasing, investment is now allocated to the actual user of the equipment rather than to the financial intermediary.
- Fixed capital consumption is recorded for infrastructure works owned by general government (roads, dams, dykes).
- Constant-price estimates have been improved and now make better allowance for new products and changes in quality and productivity.
- Exports and imports tend to rise because the new general system considers all goods entering or leaving the economic territory, apart from those in simple transit. Purchases of goods and services in the economic territory by non-resident visitors are treated as exports. Conversely, purchases of goods and services by residents travelling abroad are treated as imports.
- In accordance with the accrual time of recording, transactions are recorded at the time of the events that generate them and not at the time of actual payment.
- More detailed accounts, due at the end of the year, show how income is, first, generated in enterprises, and then distributed as salaries, interest and dividends, and then how government takes a share as taxes and redistributes it as social benefits to households, subsidies to enterprises, etc.

- There is greater attention to financial transactions, financial services and income derived from them, as a result of including new financial instruments that have sprung up in recent years and of reflecting the enhanced role in the economy of insurance and pension funds. This data, too, is due at the end of this year.

### **Minor differences for GDP, major differences for components**

If we take 1995 as the reference year - the base year for the new system - we can see that with ESA95 the GDP figures for every Member State have been revised upwards, the increases ranging from +0.2% for Ireland to +4.4% for Spain and +6.4% for Denmark.

There are various reasons for these revised figures, such as changes in concepts, the use of new and better statistical sources (in connection with the work on exhaustiveness, for example), extensions of geographical territory (for instance, France now includes the overseas *départements*), the effect of the regular revisions of the national accounts, and so on. In connection with the work on exhaustiveness the national accountants improved their evaluation of the hidden economy (see chapter on hidden economy).

The table below shows for 1995 the differences between the data supplied in 1998 according to ESA79 and the data on GDP and the major aggregates now compiled according to ESA95. For GDP the impact on the figures that results from changes in concepts and from new sources and other statistical factors is indicated. The improvements related to sources were taken into account in the GNP figures used for the Union's own resources last year.

The nature of the impact varies from one Member State to another. This is because some Member States have gradually incorporated new statistical sources in recent years, before the changeover to ESA95; in these countries, therefore, the impact has been limited to changes in concepts. In other Member States, however, the bulk of the changes were implemented at the same time as the changeover to the new system.

These are only summary explanations, and any analysis of the causes of the differences between the two systems needs to be considered more thoroughly and extended to cover all the components of GDP.

With regard to the main aggregates of GDP, final consumption in almost every Member State shows a smaller increase than GDP in general. As can be seen in the accompanying detailed tables, there is a general decline, sometimes quite significant, in the final consumption of households, offset by a matching rise in general government consumption. The reason for this is the change in the concept of household consumption.

The increase in GDP stems primarily from a noticeable increase in capital formation, due largely to the broadening of the notion of investment, but also to improved statistical sources.

There are also significant increases in imports and exports, although the impact on the balance, and hence on GDP, is limited (see table 1).

Table 2 shows the differences between the data according to ESA79 and ESA95 for the whole available series.

Table 1							
Differences between ESA95 and ESA79 data, in %, 1995							
1995 is the base year of the change							
	GDP			Final Consumption Expenditure	Gross Capital Formation	Exports	Imports
	Total	Concepts	Statistical sources and other factors				
<b>Euro zone</b>	+ 1.9	:	:	+ 1.1	+ 7.2	+ 2.5	+ 4.1
<b>EU15</b>	+ 2.0	:	:	+ 1.1	+ 7.2	+ 2.2	+ 3.4
<b>Belgium</b>	+ 0.8	+ 1.6	- 0.8	-2.0	+ 14.3	+ 5.7	+ 6.6
<b>Denmark</b>	+ 6.4	+ 4.1	+2.3	+ 4.3	+ 17.1	+ 5.3	+ 5.8
<b>Germany</b>	+ 2.3	+ 1.1	+ 1.2	+ 1.3	+ 6.4	+ 5.1	+ 5.5
<b>Greece</b>	:	:	:	:	:	:	:
<b>Spain</b>	+ 4.4	+ 1.5	+ 2.9	+ 3.2	+ 10.3	-0.6	+ 0.6
<b>France</b>	+ 1.2	+ 0.2	+ 1.0	+ 1.2	+ 6.7	-3.2	+ 1.0
<b>Ireland</b>	+ 0.2	-3.0	+ 3.2	+ 5.1	+ 5.8	+ 0.3	+ 6.9
<b>Italy</b>	+ 0.9	+ 1.7	- 0.8	- 0.4	+ 7.0	- 1.7	- 1.5
<b>Luxembourg</b>	:	:	:	:	:	:	:
<b>Netherlands</b>	+ 4.1	+ 3.3	+ 0.8	+ 2.7	+ 13.7	+ 12.8	+ 15.8
<b>Austria</b>	:	:	:	:	:	:	:
<b>Portugal<sup>1</sup></b>	+ 1.9	:	:	+ 0.3	+ 3.8	+ 0.9	- 1.2

<b>Finland<sup>1</sup></b>	+ 2.1	:	:	+ 0.5	+ 12.9	+ 1.0	+ 2.2
<b>Sweden</b>	+ 3.4	+ 2 to +2.5	+1 to +1.5	+ 1.8	+ 11.1	+ 1.6	+ 1.1
<b>United Kingdom</b>	+ 1.6	+ 0.8	+ 0.8	+ 1.0	+ 4.9	+ 0.0	+ 0.0

<sup>1</sup> In the case of Portugal and Finland, it was not possible to calculate accurately the causes of the change. For Finland however, the main impact was due to concepts.

<b>Table 2</b>							
<b>Differences between data according to ESA95 and ESA79,</b>							
<b>GDP, in %, 1991-97, at current prices</b>							
	1991	1992	1993	1994	1995	1996	1997
<b>Euro zone</b>	:	:	:	:	+ 1.9	+ 1.7	+ 1.7
<b>EU15</b>	:	:	:	:	+ 2.0	+ 1.9	:
<b>Belgium</b>	+ 0.4	+ 0.5	+ 0.2	+ 0.2	+ 0.8	+ 0.3	+ 0.6
<b>Denmark</b>	+ 5.7	+ 5.8	+ 4.9	+ 6.7	+ 6.4	+ 7.4	:
<b>Germany</b>	+ 3.0	+ 2.5	+ 2.3	+ 2.0	+ 2.3	+ 1.8	+ 1.4
<b>Greece</b>	:	:	:	:	:	:	:
<b>Spain</b>	:	:	:	:	+ 4.4	+ 4.6	+ 4.8
<b>France</b>	+ 1.6	+ 1.8	+ 2.1	+ 1.5	+ 1.2	+ 1.0	+ 1.2
<b>Ireland</b>	+ 3.1	+ 2.0	+ 1.7	+ 0.1	+ 0.2	+ 0.4	+ 1.8
<b>Italy</b>	+ 1.5	+ 1.6	+ 1.5	+ 1.3	+ 0.9	+ 1.2	+ 1.2
<b>Luxembourg</b>	:	:	:	:	:	:	:
<b>Netherlands</b>	:	:	:	:	+ 4.1	+ 3.9	+ 4.1
<b>Austria</b>	:	:	:	:	:	:	:

Portugal	:	:	:	:	+ 1.9	:	:
Finland	+ 1.5	+ 2.2	+ 2.2	+ 2.0	+ 2.1	+ 2.4	+ 1.3
Sweden	:	:	+ 3.2	+ 3.7	+ 3.4	+ 3.8	+ 3.8
United Kingdom	+ 1.8	+ 1.7	+ 1.6	+ 1.7	+ 1.6	+ 1.7	+ 1.6

### The hidden economy is taken in account in National Accounts

National accounts aim to measure all economic activity. To do this they draw on a wealth of statistical and other information, which is generally of good quality but not complete, particularly in some areas: for example some enquiries are based on samples, small enterprises are allowed simplified reporting, births, deaths and mergers of enterprises have to be tracked, etc.

Particular attention has been paid to the exhaustiveness of the estimates since 1988 when Gross National Product began to be used to calculate part of the Member States' contributions to the EU budget. The new ESA95 data benefit from 10 years intensive and thorough work by Eurostat and countries' statisticians working together to ensure reliable, comparable data.

The kind of checks carried out include:

- Thorough verification that Member States' national accounts conformed closely to ESA rules and concepts.
- Very detailed inventories of sources and methods actually used by each Member State to calculate GNP.
- Reservations by the Commission on data deemed unacceptable until improvements were made.
- Frequent and extensive control missions to each Member State by Eurostat staff over the last decade to review and discuss progress.
- At every step, the work was presented to and discussed by the Member States' GNP Committee. This ensured the process was transparent and benefited from the experience of the best European national accountants.

Particular attention was paid to ensuring that all economic activity that *should* be covered by the estimates *was* covered – whether or not actually declared in statistical enquiries or administrative files. For instance some of the key checks involved:

- Systematic confrontation and reconciliation of data from different sources: for instance, on production, use of products and income generated. The whole compilation process of national accounts uses

multiple sources – both statistical and administrative (for example, car registrations) – that cross check and reinforce each other. This is one of its main strengths.

- Cross-checking with employment data, believed to have fairly complete coverage.
- Examination of statistical registers to find missing units.
- Particular attention to estimates for unrecorded activity in industries where it is known to be significant, such as construction or catering.
- Fiscal audits to adjust for possible impact of tax evasion on measurement of economic activity.
- A number of specific and common problem areas, such as restaurant tips, or wages and salaries paid in kind.

National accountants are, of course, aware of estimates made by academics that claim a large unrecorded or hidden economy. But generally these ignore the ways in which national accountants do make macro-economic adjustments to include economic activity that might go unrecorded by micro-economic data. Because the adjustments are part of the systematic compilation and checking of national accounts data, many of them are hard to separate from other adjustments for coverage of basic sources; consequently it is not possible to give a separate figure for the the size of the hidden economy.

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