



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National Accounts, Prices and Key Indicators
Unit C-1: National Accounts Methodology. Sector Accounts. Financial indicators

A NEW EUROPEAN SYSTEM OF NATIONAL AND REGIONAL ACCOUNTS (ESA 2010)

RAVETS Christian – Christian.Ravets@ec.europa.eu

MAZZI Gian Luigi – Gianluigi.Mazzi@ec.europa.eu

A new methodology and transmission programme of national accounts data

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 European Union (EU).

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.

ESA is the European version of the world-wide System of National Accounts (SNA); the main difference between the two systems is the presentation, which is in the case of ESA more in line with EU needs.

Contrary to the SNA, the ESA is an EU Regulation which comprises a methodology and a compulsory transmission programme of data by Member States.

The reasons for having a new ESA

The methodological framework for producing national accounts data (ESA 1995) has been replaced in September 2014 with the new European System of Accounts (ESA 2010) defined by EU Regulation (nr 549/2013). ESA 2010 revises and updates the common standards, classifications and accounting rules for Member States in drawing up their national accounts and transmitting their data to Eurostat.

As compared with its predecessor, the ESA 2010 reflects the developments in modern economies, the advances in methodological research, as well as the growing needs of European data by users.

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. Therefore they 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. 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, while the EU has implemented ESA 2010 from September 2014.

The main methodological changes

The Inter-Secretariat Working Group on National Accounts comprising the UN, the OECD, the European Commission (Eurostat), the IMF and the World Bank presented in 2007 to the UN Statistical Commission a list of 44 recommendations for the update of the SNA 1993. This list had been prepared by the Advisory Expert Group (AEG), representing high-level national accountants from a broad range of countries around the world.

In the context of the revision of SNA and ESA, these recommendations have been extensively discussed in Europe with the National Statistical Institutes and the Central Banks.

The main methodological changes introduced in SNA 2008 and 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. 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.
- 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, as well as a complete new set of data on potential obligations of government.

Impact of methodological and statistical changes

In addition to these methodological changes, the new ESA is an opportunity for Member States to undertake statistical changes (new or revised data sources, benchmark revision, improved compilation methods, etc.).

Only after the transmission by Member States of their new ESA 2010 data and their validation by Eurostat, it will be possible to assess the total impact of methodological and statistical changes of ESA 2010.

From very preliminary estimates focused only on methodological changes, it appeared that the weighted average impact of methodological changes on GDP results in an increase of 2.4%, of which +1.9 (around 80% of the total methodological impact) is due to the capitalisation of research and development.

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.

It will be soon possible to have an overview of the actual impact at Member State level and also on the European aggregates.

It is important to stress that the implementation of the ESA 2010 generates a level shift on the current price data, while its effect in volume growth rate is expected to be limited, without significant changes on past history.

Eurostat organises two press briefings, one on the impact of the introduction of the new standards, based on the actual figures transmitted by countries (17 October), one on Government Finance Statistics (21 October).

Problems related to the transition phase

Annual national accounts had for the first time to be transmitted according to ESA 2010 in September 2014.

We are now in a transition phase: some countries face technical problems related to data exchange, which are being addressed bilaterally with Eurostat. Also, insufficient length of ESA 2010 time series has been observed, this will be progressively fixed within a reasonable time horizon.

Some gaps are observed in various tables, as several countries have delivered only partial data according to existing derogations, and consequently some problems are temporarily experienced for the construction of European aggregates.

The ESA 2010 website

Eurostat has put in place a website dedicated to the implementation of ESA 2010

http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction

Available on this site are:

- The text of ESA 2010 methodology (currently in English, French, German, the other linguistic versions will follow)
- The ESA 2010 transmission programme (English, French, German)
- Implementation manuals (manual on the changes between ESA 95 and ESA 2010, manual on measuring research and development, manual on regional accounts methods, handbook on quarterly national accounts, technical compilation guide on pensions, handbook on quarterly national accounts, manual on goods sent abroad for processing, and also available soon the handbook on prices and volumes, Eurostat/OECD compilation guide on land estimations).
- A presentation of ESA 2010
- Frequently asked questions
- External links to relevant information on the implementation of ESA/SNA on other web sites of European as well as non-European countries, providing in particular useful information on methodological and statistical changes in their country.