General presentation of ESA 2010

1. General background to the ESA revision

1.1 National accounting concepts

In common with firms, countries are subject to accounting obligations to enable their levels of economic activity to be measured. The principles governing national accounts are similar to those applicable to business accounts.

As the purpose of national accounting is to provide a measurement of economic activity and its various factors, it is focused first and foremost on the creation, distribution and use of wealth. Generated during the production of goods and services and subject to property rights, this wealth undergoes a monetary assessment to provide an aggregated overview of economic activity, which may be regarded from various angles.

GDP and GNI

Gross domestic product (GDP) is the most commonly used indicator for a country's production processes covering a specific period of time (year or quarter). Measuring the wealth created in a country during this time frame, GDP is regarded as the most reliable and internationally comparable measurement of economic activity. Politicians, economists and the press seek to make a detailed examination of the rate of growth in GDP, both on a nationwide and international scale. Within the European Union (EU), public debts and deficits are expressed as a percentage of GDP for the purpose of monitoring budgetary policies.

An economy's wealth-creation process may be examined from three perspectives: output, expenditure and income.

GDP **based on output** is interpreted according to the value added concept, as a measurement of all the goods and services created during a period which, rather than being immediately deployed for production purposes, are put to end-uses. GDP **based on expenditure** may also be regarded as the sum of spending made by the final users of goods and services, thus highlighting how wealth is put to use in the economy. GDP **based on expenditure** focuses on how wealth is distributed in the economy, with output creating incomes for all owners of production factors. This basis also allows a distinction to be made between the remuneration to which employees are entitled and the remuneration for owners of capital.

GDP measures wealth within a country, irrespective of whether the production factors deployed are resident or otherwise. In other words, this does not reflect whether some of the wealth is created by non-residents and the fact that residents may also contribute to the wealth creation process in other countries. **Gross national income (GNI)** serves to make adjustments in the case of GDP, measuring the wealth created specifically by national economic operators. GNI is used in particular to calculate the EU's fourth own resource.

Balance sheets

It is not enough to keep track of the transactions carried out by economic operators during the year to gain an understanding of a country's economy. The way economic operators behave depends to a large extent on their **wealth**, namely their **assets** and **liabilities**. National accounting also factors in this dimension, allowing wealth to be examined and balance sheets to be drawn up according to a standardised classification system involving economic operators divided into institutional sectors (see below).

Branches of activity and sectors

National accounts provide two methods for grouping economic operators who generate wealth: branches of activity and sectors.

- in order to show the production process, the economic units are divided into **branches of activity** according to the type of activity carried out, such as agriculture, various branches of industry, construction and the different branches of the service industry. The ranking systems may include varying levels of detail depending on the standardised nomenclature being applied;
- in order to describe not only the production processes but also the income and expenditure flows, the financial flows and the balance sheets, the economic units are divided into institutional **sectors:**

    - non-financial corporations;
    - financial corporations;
    - general government;
    - households;
    - non-profit institutions serving households;
    - the "rest of the world", i.e. economic units located abroad and carrying out transactions with resident units

1.2 International national accounting framework: SNA 2008 and ESA 2010

National accounts would have little relevance if each country managed them separately and independently according to its own assessment regulations, its own nomenclatures, its own accounting systems and so on. Consequently, the national accounting frameworks deployed by the different countries are based on an international **standardisation** process to allow data about extensive geographic areas (regions, countries, groups of countries) to be compared and aggregated.

The most general international guidelines in this area are those covered by the **System of National Accounts** (**SNA)**, which are jointly drawn up internationally by the United Nations, the International Monetary Fund (IMF), the Statistical Office of the European Communities (Eurostat), the Organisation for Economic Cooperation and Development (OECD) and the World Bank.

As required within this framework, while addressing the EU's specific needs, Eurostat has formulated the **European System of National and Regional Accounts** (**ESA)** to provide a systematically detailed description of the EU economies, their components and relations with the other economies. The ESA is therefore used as the central reference point for the economic and social statistics of the EU and its Member States.

The international systems of national accounts are revised from time to time to cater for new statistical requirements called for in response to changes in the contemporary economies and reflecting methodological developments. These revisions mainly involve achieving smooth transitions in relation to the application of previous versions, while ensuring consistency with the manuals otherwise used, in particular the Balance of Payments Manual (BPM), the Manuel on Government Finance Statistics and the Monetary and Financial Statistics Manual.

The revision process gets underway at the most comprehensive level (that of the SNA, which is now in its fifth version – entitled **SNA 2008**– since the original version published over 50 years ago). In the case of the EU, the principles are subsequently reflected at ESA level, then nationally as the EU Member States are required to implement the ESA. **ESA 2010** is now the latest version of the European System of National and Regional Accounts, and is applicable starting in September 2014.

1.3 ESA 2010 and BPM6

Ever since the end of the Second World War, the IMF has been working closely with other international fora (particularly the European ones) and national statistical offices with a view to developing guidelines on the international standardisation of balance of payment statistics. These are featured in the **Balance of Payments Manual (BPM)**, whose sixth and latest version is called **BPM6**.

The work on the balance of payments has been part of a process operating in tandem with the one undertaken for national accounts, within both the SNA and ESA frameworks, in order to ensure as much consistency as possible between domestic and non-domestic macroeconomic statistics.

In common with ESA 2010, BPM6 is designed to improve the ability to account for developments that have affected the world economy since the previous revision, in 1993: including globalisation and the development of financial innovations. It is also focusing more on international investment position data (reflecting an economy's assets and liabilities in relation to the exterior).

In practical terms, the outcome of the new methodology is a number of reclassifications between balance of payments items and a generally higher degree of detail.

BPM6 is also scheduled to be implemented in the EU in September 2014.

2. New features of the ESA 2010 revision

The adoption of the new SNA 2008, in 2009, made it necessary to adapt ESA 95, the system used for the EU since 1996 and based on the previous SNA 1993. The ESA's adaptation was provided with a formal setting by way of the **Regulation (EU) N° 549/2013 of the European Parliament and the Council of 21 May 2013** on the European System of National and Regional Accounts in the EU, and introducing ESA 2010.

Most of the new items in ESA 2010 echo those included in SNA 2008 but they have been transposed and clarified in order to reflect more effectively the actual situation in the EU, with certain differences in detail.

In any event, the idea is to improve the economic and descriptive relevance of the national accounting system against the background of the rapid economic changes.

A comprehensive review of the ESA 2010-induced changes for the national accounting systems lies beyond the scope of this introductory Internet page (although it is featured in the New national accounts manuals and in the relevant Eurostat documentation on the revision - see **Useful links**) but the changes can nonetheless be divided into five main groups, indicating whether they are related to the following items:

- the globalisation of the economy;
- the knowledge-based economy;
- the financial dimension;
- public finances;
- the refining of the calculation methods.

Some of the changes may of course relate to several of these groups at the same time.

It should be stressed that not all the adaptations introduced by the new ESA necessarily affect Belgium's national accounts, as some of them may not be reflected in the country's actual economic situation, or it may be impossible strictly to implement certain aspects of the methodology owing to reasons to do with the availability of data.

2.1 Globalisation of the economy

In common with SNA 2008, ESA 2010 stresses the importance of taking more account of the increasing **globalisation** of the economy. The scale of this dynamic process presents a challenge to statisticians, and acts as channel for national resources to become more internationally mobile and for the national economies to become increasingly interdependent.

Against this background, the decision was taken to ensure a stricter application of the transfer of ownership principle as a criterion for the registration of transactions.

In the context of national accounts, this stricter application affects the registration of three types of transactions: "goods sent abroad for processing"[1], "maintenance and repairs" and "merchanting"[2]. ESA 1995 regarded "goods sent abroad for processing" and "maintenance and repairs" as transactions in goods, even if they did not result in changes of ownership, whereas ESA 2010 considers them as transactions in services. Conversely, "merchanting" was regarded by ESA 1995 as a transaction in services, even if it resulted in a change of ownership, whereas it is deemed to be a transaction in goods pursuant to the new methodology.

Belgium's economy is notable for being extremely open, hence these changes will have a major impact on the breakdown of the import and export figures in the national accounts, the balance of payments statistics and the supply and use tables.

2.2 Knowledge-based economy

Regarded as a decisive factor for medium and long-term economic expansion and prosperity, research and development (R&D) expenditure has been of particular interest to policy-makers and analysts over the last two decades.

ESA 95 regarded this expenditure as forming part of intermediate consumption, as inputs completely used up during the production process. However, the knowledge derived from R & D activities is deployed on an ongoing basis in the production process. R & D achievements can therefore offer a multiannual economic advantage to their owners, in the same way as buildings and machinery.

ESA 2010 has been accordingly adjusted and now treats R & D, purchased or conducted on an own account basis, as gross fixed capital formation. Against this background, the list of non-financial assets produced has been extended to include the achievements of R & D, as "intellectual property rights".

Market and non-market producers will be affected differently by the change to the concept and the impact will also differ according to whether the R & D activity is undertaken on a proprietary basis or purchased. However, it will have an overall upward impact on several key national account measurement systems, including GDP.

2.3 Financial dimension

The multidimensional financial sector has been one of the fastest changing ones in recent years.

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[1] In the case of "goods sent abroad for processing", a firm undertakes a processing activity in respect of goods that remain the property of the principal, based in another country.

[2] "Merchanting" refers to a resident (in the reporting economy) purchasing from a non-resident, the subsequent resale to another non-resident, without the good in question entering the territory of the reporting economy.

These transformations are reflected in ESA 2010 thanks to a) the adaptation and extension of the range of financial transactions in assets and liabilities, and b) a revised definition of the institutional sectors.

In the case of financial transactions, the "provisions for calls under standardised guarantee" is one example of a new instrument that has been added.

Provided with an extended sub-classification in the ranking of institutional sectors, the financial sector has also been adapted to identify a new sub-sector involving "captive financial institutions and money lenders", comprising financial institutions that do not engage in financial intermediation activities nor the provision of auxiliary financial services, and where most of either their assets or their liabilities are not transacted on open markets. This sub-sector includes for instance holding companies that will now be clearly separated from the head offices. This change will result in a significant level of financial assets and liabilities being relocated from the non-financial corporations sector to financial corporations.

The method for calculating "financial intermediate services indirectly measured" (**FISIM**) has also been fine-tuned. FISIM provide for an accounting-based measurement of services rendered by financial intermediaries, funded by their intermediation margin. A change to the method applied to estimate these services may have an impact on GDP and GNI.

The most extensive change in the financial sector is applicable to the **new guidelines for recording pension entitlements**. Unlike ESA 95, which recognised only funded private pension schemes, ESA 2010 now recognises any pension scheme, including unfunded ones. The figures for these are to be featured in an additional table that will be compiled starting from 2017.

2.4 Public finances

In view of the vital importance for our economies of ensuring public finance data are properly recorded, and pursuant to SNA 2008, ESA 2010 clarifies several issues relating to **general government and public corporations.**

First of all, the application of **qualitative criteria** to decide on the ranking of market and non-market activities (vendor's profit maximisation, purchaser's utility maximisation, the availability of efficient markets) on top of the quantity criterion used before (which has itself been adapted) should lead to an increase in the number of units ranked in the general government sector, thereby affecting the deficits and liabilities of general government.

The treatment of the following themes has also been clarified: special purpose entities controlled by general government; special dividends paid by public corporations; public-private partnerships and restructuring agencies; structured investment vehicles; standardised guarantees; treatment for lump-sum amounts received from a pension scheme. However, some of these clarifications were already applied in practice pursuant to the recommendations made in this area.

2.5 Refinement of the calculating methods

In several areas applicable to current social developments (in particular environmental issues) the ESA introduces new items or fine-tunes the calculating methods that were previously used. This applies in particular to the following aspects:

- Owing to a change in the method of calculation, extreme occurences (such as major natural disasters, for instance) currently give rise to less volatile movements of **non-life insurance claims**. This will have an impact on GDP and GNI but it is impossible to specify the scale of this in advance;

- **Decommissioning costs** (costs involved in the end of the economic life of certain assets, such as nuclear power plants, in order to neutralise the environmental damage or the related safety issues) are recorded in ESA 2010, at the end-of-life stage, no longer by a depreciation process from the beginning. Should the impact on the asset's life cycle be neutral, this change may have a slight affect on the production profile, expenditure, income and GDP;

- The creation of a further category of produced assets, "**land improvements**", aligns capital formation through land improvement with a change in the corresponding asset stock. This may have an upward impact on GDP and GNI in certain cases.