

## Box 7

### Government finance statistics based on the ESA 95

From 1999 national accounts data on the government sector must be compiled in accordance with the new European System of Accounts 1995 (ESA 95).<sup>1</sup> The implementation of the ESA 95 is expected to improve the quality of data in terms of both their comparability – the ESA 95 is compulsory for all EU Member States – and the methodology used. The methodological improvements relate to a more clearly defined delimitation of the general government sector (the distinction between market and non-market producers being based on the concept of “economically significant” prices), more up-to-date concepts (such as the recording of leasing), the recording of transactions more closely in line with economic criteria (on an accruals and not a cash basis), and improved measurement practices (the inclusion of capital consumption on roads and bridges, etc.).

Almost all Member States have now made data available for the general government sector which have been compiled in accordance with the new system. (Financial accounts, however, are not due until 2000.) Government receipts, expenditure and deficit aggregates shown in Table 7 of the “Euro area statistics” section of this issue of the ECB Monthly Bulletin are published for the first time on the basis of ESA 95 national data.<sup>2</sup> However, the deficit and debt figures reported by the Member States to the European Commission in September 1999 within the framework of the excessive deficit procedure were still compiled in accordance with the ESA 79 (see the government debt data for the euro area and data relating to euro area countries in Table 7). The first report based on the new system is scheduled for March 2000.<sup>3</sup>

The differences between the ESA 95 and the ESA 79 data are only partly due to these methodological changes. Other differences result from the practical implementation of the new system. In general, national statistical institutes used the change to the ESA 95 to modify the statistical interpretation, and thus the recording, of certain transactions and to incorporate new sources of data. In addition, data expressed as a percentage of GDP are also affected by the revision of the level of the latter. As overall GDP levels increase, so the ratios decline.

Total receipts and total expenditure in the ESA 95 are, on average, 1 percentage point lower in relation to GDP than in the ESA 79 for the most recent years. The increase in GDP and the change in nominal receipts and expenditure each account for approximately half of the revision. Across countries, the magnitude and even the sign of the changes in receipts and expenditure categories differ substantially. Methodological revisions do not have the same impact everywhere and, in addition, they are often outweighed by country-specific revisions. The decrease in receipts and expenditure ratios is mainly due to smaller social contributions, transfers to households and the compensation of employees. This reflects the exclusion of units previously included in social security and of units engaged in health care from the general government sector. The change in the deficit ratio – around  $\pm 0.1$  percentage point for the most recent years – is much smaller than the change in the various receipts and expenditure categories, as many revisions are simply reclassifications among different categories. By contrast, changes in the general government sector delimitation and the switch to accruals accounting affect the deficit. In some cases, the impact of switching to accruals accounting tends to be cancelled out over a span of years. Since the broad development over time of the key public finance indicators is similar under both ESA 95 and ESA 79 recording, the change in the statistical standard does not provide a different picture of the convergence process.

<sup>1</sup> Council Regulation (EC) No. 2223/96 of 25 June 1996 on the European System of National and Regional Accounts in the Community, Official Journal of the European Communities L 310 of 30 November 1996.

<sup>2</sup> ESA 95 data on receipts and expenditure are available for around 85% of the euro area; for the other participating countries, updated ESA 79 data have been used.

<sup>3</sup> Government debt is not an ESA concept. This concept is defined in Council Regulation No. 3605/93 with reference to the ESA 79 and has to be amended in line with the ESA 95.