

Box 6

MAJOR CHANGES IN EURO AREA AND MEMBER STATES' NATIONAL ACCOUNTS

In the course of 2005 and 2006 euro area and EU Member States' ESA 95 national accounts data will undergo major changes as a result of the introduction of (i) chain-linking of annual and quarterly series at constant prices, (ii) a new treatment of financial services indirectly measured (FISIM) and (iii) new methods for compiling government output, as well as benchmark revisions. This box discusses these changes, which will improve the quality of the national accounts. It also explains the timetable for revising the euro area national accounts and gives a preliminary assessment of the possible impact of these changes.¹

The move to chain-linked annual accounts is required by EU rules² aimed at improving the accuracy and comparability of GDP volume measures between countries. Almost all EU countries have decided to implement chain-linking for quarterly national accounts for reasons of consistency. In order to measure the volume growth of GDP and its components, the effect of price changes has to be eliminated. For this purpose, most EU countries have been using a fixed weighting structure which is updated every five years. From 2005 onwards, the weights will be updated annually, using values at the prices of the previous year, and the results obtained using those weights will subsequently be (chain-)linked. The introduction of chain-linking improves the accuracy of volume growth measures. If fixed weights are used for a prolonged period, they become less and less relevant over time (for example, the 1995 share of computers in

1 For further information see Eurostat's website.

2 Commission Decision of 30 November 1998 (98/715/EC) clarifying Annex A to Council Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community as concerns the principles for measuring prices and volumes.

investment is out of date when the growth of fixed capital formation is computed for 2004). Chain-linking also improves comparability with US statistics, which have used a similar practice since the late 1990s. The same is true for comparability within the EU, since some EU countries have been using chain-linking for some time.

Furthermore, in the course of 2005 national statistical institutes (NSIs) are required to change the way in which the output of financial intermediaries is calculated and allocated.³ To a large extent, the output of financial intermediaries is determined by an imputed output, FISIM. In the current treatment, the output of FISIM is calculated as the difference between interest received and interest paid and recorded as intermediate consumption by a nominal (sector or) branch of activity. FISIM therefore does not affect the level of GDP. Under the new treatment of FISIM, value added by branch of economic activity will change through the allocation of part of FISIM to intermediate input, and GDP will change through the allocation of part of FISIM to final consumption and exports.

NSIs are also required to start implementing new methods for compiling government output,⁴ for example in the field of education, by replacing the current output estimates, derived by deflating the sum of the costs of producing government services, with direct measures of the volume growth of the output generated. In addition, the NSIs of most Member States plan to carry out a benchmark revision to their national accounts in the course of 2005 or 2006. Such benchmark revisions are necessary to align national accounts data with the latest available data sources, some of which are available only at intervals of several years (generally every five years).

These changes will be introduced in Member States' national accounts on a staggered basis up to the end of 2006. This will reduce the comparability between countries during an interim period. Eurostat plans to begin presenting chain-linked volume measures for the annual and quarterly European aggregates with the first regular release for the third quarter of 2005 on 30 November 2005, when it will have sufficient coverage of Member States' annual and quarterly national accounts. With the same release, Eurostat plans to implement the allocation of FISIM in both annual and quarterly European aggregates. Before this date, there will be no allocation of FISIM in the European aggregates. As a result, European aggregates will not be fully consistent with the data published for the Member States (which in several cases already include allocated FISIM).

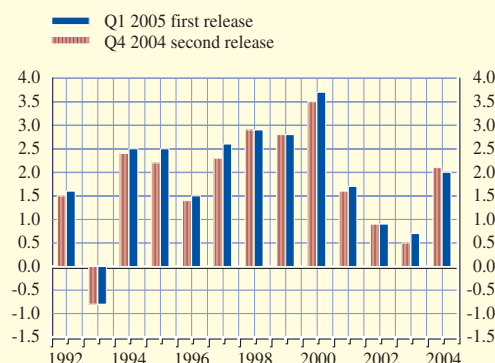
However, euro area releases prior to 30 November 2005 will already include the effect of revisions due to the introduction of chain-linking in some Member States' national accounts, as well as the effect of benchmark revisions and other changes made. For example, Eurostat's first regular release for the first quarter of 2005 (on 1 June 2005) includes the effect of introducing chain-linking and new government output measures in the annual and quarterly national accounts of Germany and Spain. It also includes the effect of the benchmark revisions in Germany, France and Spain.

3 Commission Regulation (EC) No 1889/2002 of 23 October 2002 on the implementation of Council Regulation (EC) No 448/98 completing and amending Regulation (EC) No 2223/96 with respect to the allocation of financial intermediation services indirectly measured (FISIM) within the European System of national and regional Accounts (ESA).

4 Commission Decision of 17 December 2002 (2002/990/EC) further clarifying Annex A to Council Regulation (EC) No 2223/96 as concerns the principles for measuring prices and volumes in national accounts.

Chart A Annual euro area GDP volume growth

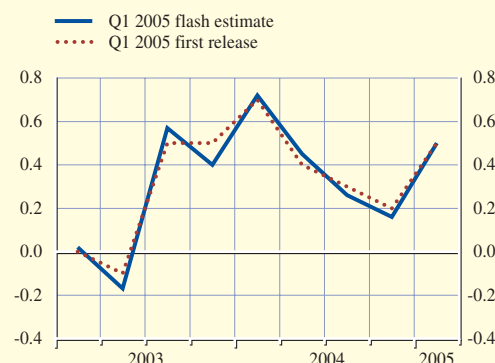
(percentages)



Sources: Eurostat and ECB calculations.

Chart B Quarter-on-quarter euro area GDP volume growth

(percentages; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Chart A shows the revisions to annual euro area GDP volume growth compared with the second release for the fourth quarter of 2004. These revisions range from -0.1 percentage point for 2004 to +0.3 percentage point for 1997, while the average revision for the period 1992-2004 is +0.1 percentage point. The average revision of annual GDP volume growth for Germany and France is 0.2 percentage point, and for Spain 0.5 percentage point (for the latter, revised data have been published only for 2000 onwards). The profile of quarterly seasonally and working-day-adjusted GDP growth is only slightly revised, with the figures for the last three quarters remaining unchanged (see Chart B).

Revisions to the annual volume growth of the components of GDP vary significantly. For the period 2001-2004, they are most pronounced in government consumption growth (-0.3 percentage point) and gross fixed capital formation growth (+0.3 percentage point). Among the components of value added, revisions for the period 2001-2004 are most significant for construction growth (+0.7 percentage point), growth in trade, repairs, hotels and restaurants, transport and communication services (-0.4 percentage point) and growth in financial, real estate, renting and business services (+0.3 percentage point).

The euro area national accounts will be subject to further revisions as other Member States will also introduce similar improvements to their national accounts in the next months.