

CHANGES IN EUROPEAN STATISTICS

FREQUENTLY ASKED QUESTIONS

What are the international standards for national accounts and balance of payments statistics and why do we need them?

These standards are a set of measurement or accounting rules agreed internationally and set out in the “System of National Accounts” and the International Monetary Fund’s “Balance of Payments and International Investment Position Manual”, new versions of which – known as the 2008 SNA and BPM6 – have recently been issued to keep them in line with economic and financial developments and to maintain their relevance. The standards form the basis for the production of the national accounts and balance of payments statistics from which key indicators of economic performance such as GDP or the current account balance are derived. They make it possible to produce data that are comparable over time and between economies.

What was wrong with the old statistical standards?

The international standards on which national accounts and balance of payments statistics are based are amended at intervals to keep the statistics in line with economic and financial developments and thus meaningful over time. The standards that have been used up to now are 20 years old. Over these last 20 years economies have seen substantial changes, in particular the increasing role of information and communication technologies in production processes, the growing importance of intangible assets, intellectual property products and service activities, the globalisation of national economic systems and the development of financial services. These changes require adjustments in the way in which macroeconomic statistics are compiled to maintain their relevance.

Who exactly has decided to change the statistical standards?

Following a worldwide cooperation and consultation process, the new version of the System of National Accounts (the 2008 SNA) was adopted by the United Nations Statistical Commission in 2008-09. The sixth edition of the International Monetary Fund’s Balance of Payments and International Investment Position Manual (BPM6) was adopted in 2008 as the new reference for the compilation of transactions and positions between an economy and the rest of the world. In the European Union, the 2008 SNA translates into the new version of the European System of National and Regional Accounts (ESA 2010), which is based on a legal act adopted by the European Parliament and the EU Council in 2013. It is consistent with the 2008 SNA, but applies

specifically to the European Union. The Governing Council of the European Central Bank has adopted several legal acts to align its statistics with the BPM6 and the ESA 2010.

When will the standards be implemented?

By the end of 2014 all Member States of the European Union will be compiling national accounts and balance of payments statistics in line with the amended standards. EU countries must adopt the new standards for national accounts by implementing the European System of National and Regional Accounts (ESA 2010), which is based on a legal act agreed by the EU Council and the European Parliament and is consistent with the standards developed by the United Nations. The Governing Council of the European Central Bank has adopted several legal acts to bring its statistics into line with the BPM6 and the ESA 2010.

The adoption of the amended standards is not just a European project but a worldwide undertaking aimed at making information consistent and comparable across countries and over time. The United States, Canada, Australia and a few other countries have already implemented the changes.

Which economic activities are going to be counted in a different way and will it change statistical figures?

In a nutshell, the main amendments to the statistical accounting rules are as follows.

- Outputs of research and development (R&D) will be recognised as fixed assets, and their acquisition, disposal and depreciation will be treated as an investment for the future in the same way as with other fixed assets. R&D has long been recognised by economists as having the characteristics of fixed assets: defined ownership rights, long-lasting, and repeated uses and benefits in production processes.
- Expenditure on weapon systems will be counted as investment. Because of their potentially destructive nature, weapon systems (e.g. aircraft-carriers) have so far been recorded as being "consumed" shortly after delivery. The new standards recognise their long-term production potential for the security of a country and the fact that they can even be exported after several years.
- The value of goods sent abroad for processing will no longer affect gross export and import figures because, in the light of globalisation, international trade will be considered as taking place only when a change in ownership occurs and not when there is merely a physical movement across a border. Such operations will hence be recorded just as an export of processing services.
- Lump-sum payments received by governments from (public) corporations as compensation for taking over pension liabilities will no longer be treated as reducing the government deficit. Under ESA 2010, the government's net financial worth does not improve.
- The allocation of special drawing rights by the International Monetary Fund will be considered as the incurrence of a liability for the receiving country because of a

requirement to repay them in certain circumstances. This new treatment will increase the country's gross external debt.

How much will the changes affect the GDP figures reported by EU Member States?

For the EU countries for which the revised statistics have already been published, GDP levels have been revised upwards. This is also expected for the countries that will publish revised figures later this year. A more detailed assessment of the impact of the changes on all the components of the national accounts and balance of payments statistics will only be possible after the full datasets have been published by all Member States.

Generally, however, only a part of the expected revisions will be due to the introduction of the new standards. Most countries will also implement a regular "benchmark revision", coinciding with the introduction of the new standards, whereby new data sources or better compilation methods are introduced.

How will the debt and deficit ratios of EU countries be affected?

The measurement of government debt and deficit levels will be affected by the changeover. On the one hand, government debt levels are expected to increase owing to the fact that more institutional units will be included within the perimeter of government. On the other hand, the rise in GDP levels will reduce the debt-to-GDP ratios of the EU Member States. The deficit-to-GDP ratios will also be affected by the increase in GDP, but to a lesser extent.