

What is the ESA?

The European System of National and Regional Accounts (ESA) sets down the harmonised methodology that must be used for the production of national accounts data in the EU. It is crucial to have such a methodological rulebook in the EU, in order to ensure that statistics on Member States' economies are compiled in a consistent, comparable, reliable and up-to-date way.

Why are we changing the ESA?

The current methodological framework for producing national accounts data (ESA 1995) is almost twenty years old. Over these 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. It is not the first time there has been a change in the methodology for National Accounts nor will it be the last. The ESA was first adopted in 1979, and was updated in 1995 and 2010. Its worldwide analogue, the SNA, has existed since 1953 with updates in 1960, 1964, 1968, 1993 and 2008.

It is important to stress that this adaptation of the system of accounts is not only European, but world-wide. Europe's ESA 2010 is the sister of the SNA 2008, adopted by the United Nations Statistical Committee, which is in the process of being implemented all around the world. It has already been implemented in USA, Australia and Canada.

When will EU statistics be affected by the new ESA?

The current methodological framework (ESA95) will be replaced in September 2014 with a new European System of Accounts (ESA 2010). Some Member States (France) have already published nationally their national accounts figures according to the new standard. Data for the Republic of Croatia will be released on 10th of September 2014 while the complete data for all Member States will be available by the end of the year.

What are the main changes?

The main methodological changes made under ESA 2010 are:

- **research and development expenditure will be counted as investment.** This is expected to increase the level of EU GDP by around 2%.
- expenditure on **weapon systems will be counted as investment.** This is expected to increase the level of EU GDP by around 0.1%.
- There will be a **more detailed analysis of pension schemes.** 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.
- In the light of globalisation, the ESA 2010 introduces, as its fundamental principle, the change of ownership in the international change in goods. Therefore, according to the ESA 2010 and the balance of payment statistics, the value of goods sent abroad for processing will be recorded, without the change of ownership, as the export of processing services. Although this

methodological modification will cause the changes in the value of exports and imports of goods, it will not impact the deficit of the current account of the balance of payments.

Why are you changing the treatment of research and development expenditure?

In today's world, investment into research and development is at least as important as investment in buildings and machinery. This is why it should also be recognised statistically as an investment.

Why are you changing the treatment of expenditure on weapon systems?

A weapon system, such as an aircraft carrier, is available to a government over many years. This is why in the new methodology they are being treated as investment rather than current expenditure (the appropriate treatment for expenditure on items which are consumed within a limited timeframe).

How will the change to ESA2010 affect GDP?

In January, Eurostat presented very preliminary estimates of the impact of ESA 2010 changes on GDP. It is important to stress that these figures only related to the methodological changes introduced by ESA 2010, and not to other changes implemented simultaneously. It is only after Member States have sent their new ESA 2010 data to Eurostat in September 2014 that the total impact of methodological changes from ESA 2010 and other statistical changes will be available.

ESA 2010 is expected to increase the level of GDP on average across the EU by around 2½%, of which some 2% is due to the capitalisation of research and development. The remaining methodological impact is due to various elements, the most important of which is capitalisation of military expenditure which represents +0.1%.

The impact differs between Member States.

By way of comparison, it is worth mentioning that, in the United States, the introduction of the new international standards led to an increase of 3.5% in the level of GDP for 2010 to 2012, with the capitalisation of research and development accounting for 2.5%.

Is this going to rewrite history, and get rid of the recession?

Absolutely not. This is not a way of getting rid of the recession, as the changes are to the level of GDP not the growth from period to period.

Is this just a way of making government debt and deficit ratios look better?

No. In fact if this were the intention it would actually be a failure.

It is true that as a simple effect of an increase in GDP, there would be a corresponding decrease in all indicators calculated as a percentage of GDP.

However, ESA2010 also has an impact on the absolute value of debt and deficit, which is likely to be upwards for most Member States due to changes in what is counted inside general government. Depending on the relative size of this change and the change in GDP, the ratios might go up, down or remain the same.

Will this change the amount Member States pay into the EU budget?

The budget of the EU is first set at a fixed amount and is then proportionally divided according to the economic weight of Member States, and is not set as a fixed share of GDP. Therefore the amount the Member States pay into the EU budget will at most be affected to a minor extent.

Are there other changes being made at the same time?

While all Member States are implementing the ESA 2010 methodology in September, there are two further changes that will in many Member States occur at the same time.

Firstly, Member States will use this opportunity to also carry out additional statistical improvements, for example updates of data sources.

Secondly, as part of the process of harmonising methodology across the EU, many Member States will introduce improvements in the way they accounted for certain illegal activities in GDP.

Why are you including these illegal activities?

It must be stressed that this is nothing new, and in fact the changes being introduced simply reflect improvements to methodology. The inclusion of these activities has been required since 1999 under international standards.

GDP is about measuring all economic activity. Both declared and undeclared (which includes illegal) activities need to be taken into account in order to have a full and accurate picture of the value of production/consumption in a given period.

Since there was a need to agree on standards on how to measure illegal activities, common methodological guidelines have been agreed between the European Commission and the Member States to ensure consistency between all Member States. These guidelines concern prostitution, the production and trafficking of drugs, and alcohol and tobacco smuggling. By 22 September 2014 all Member States are required to comply with these requirements. These methodological guidelines have no direct relation with ESA 2010.