

The system of national accounts changes

In 2014 important changes will be introduced in the European System of National Accounts (Esa), the framework which sets out the standard methods for calculating national accounts data within the European Union.

In Italy, as in most of the Eu countries, the switch to a new version of accounting standards (i.e. the transition from the 1995 version to the Esa2010) is also the moment to introduce the necessary improvements to the methods used to compile measurements along with the new information sources which have become available in recent years. The following text describes the system of national accounts, the reasons for the introduction of the new Esa, the most important changes and the impact they will have on the main macro-economic figures, as well as the schedule for publishing the new national accounts data.

To find out more, www.istat.it home page has a section dedicated to the new system of national accounts.

The European System of national accounts (Esa)

National accounts are the main tool used to compile statistics measuring the economic situation of a country. They are used by public authorities, and policy makers who derive information from them for decision-making; they are also a reference point for the media, businesses and economic analysis. Some crucial measurements for the governance of the Eu and each Member State are estimated directly within national accounts. For example, the **deficit/Gdp** and **debt/Gdp** ratios (the so-called Maastricht parameters) are used to define the state of public finances in each country. **Gross national income (Gni)** is used by European institutions to calculate how much each country needs to contribute to the Union. **Per capita regional Gdp** is used to allocate structural funds to the regions in the European Union. Lastly, **quarterly Gdp growth rate** is one of the reference indicators for economic and monetary policy within the Eurozone.

Why a new Esa

Over the last twenty years, economies throughout the world have been affected by very important changes: the growing role of Ict in production processes, the increasing importance of intangible resources, the strengthening of intellectual property rights over goods and services, the globalisation of the markets and internationalisation of businesses. As a result, international macro-economic statistics have evolved to be able to adequately measure the new situation. The most important step is the **updating of the UN System of accounts (Sna)**, which sets out the guidelines for international national accounts, and which has passed from the Sna1993 version to the current **Sna2008**. The United States introduced the new system in 2013. In 2014, the same thing will take place in the European system of national accounts, Esa2010, which is based on the guidelines set out in Sna2008, although with some adaptations in terms of the way data is presented and a higher level of detail and precision in the definitions of certain concepts (especially those used for specific Eu purposes).

The way national accounts change

When the new Esa is introduced, all the improvements made to the estimation process, both in terms of methodology and new base information, will lead to a **new benchmark** (or reference measurement) being set, using a year chosen as reference year (in this case, 2011). For this year, the levels of all the measurements included in the accounts will be checked and recalculated; among other things, this will involve the verification and revision of **nominal Gdp**, which will be calculated from scratch.

The trends over time for the variables in the years prior to the reference year are reconstructed in line, as a general rule, with those published in the past. Lastly, the figures relating to the most recent years (2012 and 2013) are calculated using the new criteria, although they remain subject to the ongoing revision process and subsequent updates. When the new figures are published, first annual and later quarterly, they will be accompanied by the time series revised back to 1995 onwards.

New information and improved timeliness in data release

When the new version of the accounts is introduced, their information capacity will be extended, both by **improving the timeliness of quarterly statistics** and by offering **new types of information** to users. For example, figures will be published on the stock of **economic assets**

In line with the calendar set by the Eu regulation on Esa2010, complete quarterly figures will be published **within 60 days from the end of the reference period** (it was 70 days under Esa95) and the deadline for publishing **figures on quarterly sector accounts** (on households, corporations, non-profit institutions serving households and General Government) will improve to **85 from the current 90 days**. On the other hand, this extraordinary revision will be an opportunity to verify the procedures to compile quarterly figures, introducing methodological improvements: ranging from the reconsideration of reference indicators and the level of aggregation, to the checking of seasonal adjustment procedures.

The main changes to national accounts and their impact on macro-economic figures

The innovations introduced to the methods of measurement and the sources used in the new National accounts fall into three main categories: a) those regarding the application of the most important methodological changes linked to the switch to Esa2010¹; b) other modifications not strictly linked to Esa2010, but shared at European level, in particular relating to the need to overcome reservations to homogeneously applying existing standards throughout the Union; c) innovations relating to the national measurement methods and the new statistical sources available at country level.

a) The methodological changes introduced by Esa2010

Regarding the switch to the new methodology guidelines set out in international standards (Sna), and in particular European standards (Esa), there are four main changes that will have an **impact on some of the main aggregates**:

- spending on Research and Development (R&D) classified under capital formation rather than current expenses;
- the reclassification of military weapons expenditure by General Government as an investment rather than intermediate consumption;

¹For a detailed list of the changes introduced by the new standard, please refer to the "Main differences between Esa2010 and Esa95" available in the [Esa2010 section](#) of the www.istat.it website.

- a new way of recording foreign trade in goods sent abroad or received from abroad for processing, for which only the value of the processing activities will be recorded, rather than the value of the goods themselves;
- the list of units belonging to General Government revised according to the methodological adjustments introduced by Esa2010.

In the new version of the accounts, **Research and Development expenses** are considered as an **investment** since they contribute to the accumulation of production capacity through intangible capital; in the past, these were recorded as current expenditure. This change in the accounting methods will have a **positive impact on aggregated demand, and therefore on Gdp**, equal to the amount of expenditure of the business sectors. The component relating to **General Government expenditure**, although already recorded as final demand as part of intermediate consumption and therefore the production of public services, will nonetheless have a **positive effect on added value**, equal to the consumption of fixed capital in R&D which contributes to this aggregate by definition.

Military expenditure on weapons acquisition will also be reclassified from intermediate consumption to **expenditures for investments**. This applies for the type of goods which fall under the general definition of investment activities, i.e. which are used repeatedly for more than one year (e.g. vehicles and other equipment such as war ships, military aircraft, armoured vehicles, missile launchers). **This change will have a limited impact**, since expenditure on weapons was previously recorded under final public consumption, and therefore already contributed to Gdp. However, there will be a **differential effect** due to the fact that introducing a physical weapons capital into the accounts will also involve accounting for the relative consumption of fixed capital, with a **positive impact on added value** for the non-market sector.

The foreign trade estimation will be affected by changes to the classification of goods subject to processing. The value of the processing service for goods sent to or received from abroad for this purpose (without any change of ownership) will be recorded with a specific heading under exchange of services. The value of the underlying goods will not be recorded, in contrast to the previous version of the Esa, where it was included under import and export of goods. This change in methodology **does not change the net balance of foreign trade, but will affect the levels of the two trade components**.

The methodological adjustments introduced by Esa2010 to the **inclusion criteria for institutional units defined as public administrations** (the so-called S13 general government sector) interact with the use of new information bases, leading to changes in the list of units included in the sector. This will have a **limited effect on the estimates of public spending and deficit of the general government**.

b) Other modifications to accounting practices

For each country, Eurostat checks the sources and methods used to calculate Gross national income (Gni that is the "twin" of Gdp but takes account of the exchange of primary income and transfers abroad) to ensure that the values are reliable and above all comparable between countries. Over the years, this verification process has led to the formation of official "reservations" relating to the application of Esa95, for specific aspects not completely aligned with the rules set out by the Esa manual. It has been established that those reservations must be overcome when the new standard (i.e. Esa2010) is introduced.

Concerning Italian National Accounts, three specific reservations² were set up, in addition to eight reservations³ which apply to all countries. Any methodological adjustments or changes necessary to

² Italy's three specific reservations relate to the calculation of the following variables: Ebit on works in progress; corporate income and losses on changes in stock; land leasings within intermediate consumption.

³ The eight reservations shared with all countries cover:

- I. the measurement of foreign capital gains (reinvested profits from direct investments abroad, interest and dividends from investment funds, income from members of quasi-corporations, inclusion of capital gains taxation);
- II. the calculation and allocation of Financial intermediation services indirectly measured (Fisim);
- III. the measurement of companies with a low or completely absent physical presence;

overcome these reservations, the great majority of which relate to technical details with very little impact, will be applied during the benchmark definition stage.

However, one of the transversal reservations is particularly important, regarding the **inclusion of illegal activities in the accounts**, which the Esa95 had already contemplated in line with the principle that the figures should be exhaustive, i.e. including all activities producing income, regardless of their legal status. These activities are very difficult to measure, for the obvious reason that they cannot be monitored, while the concept of illegal activity itself can be interpreted in a number of different ways. In order to guarantee maximum comparability between the estimates produced by Member States, Eurostat has provided precise guidelines. **All countries are required to include an estimate of the following illegal activities in their accounts (and therefore Gdp): narcotics, prostitution and smuggling (cigarettes and alcohol).** The estimation methodologies for these activities will be consistent with the guidelines set out by Eurostat.

c) Innovations and improvements in measurements combined with new information sources

Over the last two years, in preparation for the definition of the new benchmark, nearly all aspects of the compilation of Italian national accounts have been checked and modified in order to improve both the methodology and data sources used. As a result, the measurements are more robust but **significant revisions** are introduced for many economic aggregates (**Gdp** itself, **value added per sector, employment**, etc.).

Many of these innovations are based on the use of new information sources, thanks to the integration of administrative and survey databases. In particular, an important role is played by the new information database for structural business statistics, which are the foundation of estimations of production activities in the private sector of the economy. This information database is constructed by integrating all the available archives (above all, data drawn from financial statements, administrative and tax information) with the results of surveys of business accounts. The results are very different from the data used in the past, which were mainly drawn from the system of structural surveys of enterprises (sample survey of small and medium sized enterprises and census survey of large enterprises).

The new database contains individual information for the whole population of active enterprises in a given year (i.e. the entire list of units included in the Istat statistical archive of active enterprises, Asia). The result is a complete overhaul of the whole range of variables used in the accounts. Moreover, in order to fully exploit the increased potential of the information base, procedures used to process the variables relating to business activities have been redesigned (above all production, intermediate costs, value added and gross profit).

The availability of more extensive information bases, allowing full use of data on individual enterprises and workers, has made a decisive contribution to revising the procedures used to estimate two of the fundamental elements of national accounts: **the definition model for employment input and the methods used to measure the non-observed economy, and in particular the component related to the under-declaration of economic activities by enterprises.**

The **new model for estimating employment figures** is based on the complete integration at the micro level of all the administrative sources, containing information on paid work (and the relative income) and their precise links with the information collected from individuals through the ongoing Labour force survey. This method allows to differentiate between the various types of employment, firstly by identifying the line between regular and irregular employment, on the basis of the range of information from administrative sources. In particular, **not registered (undeclared) employment** is identified in the

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| IV. | the measurement of scrappage incentives; |
| V. | the inclusion of cooperative dwellings; |
| VI. | the inclusion of illegal activities in national accounts; |
| VII. | the registration of vehicle registration taxes; |
| VIII. | the estimation of intermediate consumption (maintenance and repairs) for hypothetical leasing fees. |

segments where the presence of a working activity (measured on an individual level) does not correspond to any form of social contribution or taxation. On the other hand, the association of the information on regular workers and the enterprises that employ them allows us to draw up a particularly precise picture of the labour input.

Istat has developed a complete and in-depth revision of all the methodologies used to **measure the non-observed economy** (a statistical concept used to define the components commonly described as the hidden economy). This methodological overhaul was supported by a committee of experts - including academics and institutional representatives - who were responsible for verifying and discussing the new measurement techniques. In addition to redefining the method of estimating the labour input of undeclared employment, using the new estimation model described above, the major improvements were made to the **adjustment procedures for under-declaration of activities** (i.e. false statements which tend to hide part of the income produced by the production unit). In this field, in-depth checks were conducted, developing specific procedures for identifying and correcting the under-declaration of activity, applying specific methodologies to different segments of small and medium sized production units.

Another step forwards in measuring hidden components of the economy was made in **estimating the labour income of undeclared employment**. A new methodology was developed allowing to estimate the difference in compensation between registered and not registered employment, by integrating information from Eu-Silc and Labour Force surveys with the information from administrative sources at a micro-level.

The construction of a new benchmark estimation was assisted by the availability of new and important information bases. The results of the Housing Census provided an important support for **revising the components of consumption related to housing services** (actual and estimated rentals). The results of the Non-profit Census were used for the **new estimation of aggregates relating to the sector of non-profit institutions serving households** (Npish). Moreover, **the measurement of the aggregates for private expenditure** was also revised on the basis of new information from the recently modified Households' budget survey, the results of which were used for the first time.

2014 calendar of press releases on national accounts

Here are the publication dates of press releases on the new series of national accounts data in 2014, in accordance with the new Esa.

3 October	New national accounts according to Esa2010 - Year 2013
15 October	Quarterly national accounts - II quarter 2014 revised
15 October	Quarterly non-financial accounts for General Government - II quarter 2014
15 October	Households income and savings and corporate profits Household income and savings and corporate profits – II quarter 2014
20 October	Notification of net borrowing and debt of General Government according to Maastricht Treaty – Year 2013
14 November	Preliminary estimate of Gdp - III quarter 2014
1 December	Quarterly national accounts - III quarter 2014

A **workshop presenting the new national accounts data series according to Esa2010** will also be held by Istat by the end of November 2014.