NEW INTERNATIONAL STANDARDS IN STATISTICS – ENHANCEMENTS TO METHODOLOGY AND DATA AVAILABILITY

European macroeconomic statistics will be updated in line with the new international statistical standards in the second half of 2014. The changes concern important economic indicators such as GDP, external trade and the net international investment position, as well as government deficit and debt. The changes will also have an impact on the recording of debt of non-financial corporations and the saving ratio of households. The ECB was involved in the work to revise the standards and, for the statistics for which it is responsible, is currently implementing amended reporting requirements in cooperation with the NCBs. Relevant, timely and harmonised statistics are key for monetary policy-making. The changeover to the new statistical standards will also lead to improvements in data availability in terms of timeliness and content. This article explains the reasons for the revision and the merits of the new standards. It also provides a broad assessment of the expected impact on the main economic variables and describes the improvements to the availability of euro area statistics.

1 INTRODUCTION

The international statistical standards are a globally agreed set of recommendations on how to measure domestic and external economic developments. The main economic indicators, such as GDP, the current account, external trade, government deficit, debt indicators and the household saving ratio, are determined based on these standards. The standards comprise the System of National Accounts (SNA) 2008 – prepared by Eurostat (the statistical office of the EU), the IMF, the OECD, the United Nations (UN) and the World Bank – and the IMF's Balance of Payments and International Investment Position Manual (sixth edition, BPM6). Work was carried out to update the previous versions of the standards (the SNA 93 and the BPM5) in order to better capture structural changes taking place in the world economy, driven by the globalisation of production processes, and the impact of financial innovation. The SNA 2008 and the BPM6 are fully consistent in terms of the methodological requirements and sector classifications, thereby facilitating analysis of the resident sectors' interactions with the rest of the world economy. The ECB contributed to modernising these global standards, along with related manuals providing additional guidance, and was also involved in adapting the SNA to the European context.[1] The European counterpart of the SNA 2008 is the European System of Accounts (ESA) 2010. The revised ESA is laid down in a Regulation which was adopted by the Council and the European Parliament in 2013.[2] It will be implemented in the EU from September 2014, thereby replacing the ESA 95. In addition to legally binding methodological standards, the ESA 2010 contains a transmission programme which determines the national accounts datasets that the Member States are to transmit to Eurostat, according to specified deadlines.

This article is organised as follows. The remainder of Section 1 explains the reasons for the revision and describes the coordinated implementation of the new standards in the EU. Section 2 covers the main methodological changes and their impact on economic variables. It also explains the improvements to the availability of euro area statistics, with a focus on national accounts, balance of payments and government finance statistics. The importance of aligning monetary and financial statistics to the new standards is also discussed and a timeline provided of the first releases under the new ESA 2010.

1 By way of example, the ECB defined the subsector "monetary financial institutions" in the ESA 2010. See also the ECB-UN Handbook entitled "Financial Production, Flows and Stocks in the System of National Accounts" and the BIS-ECB-IMF "Handbook on Securities Statistics", available on the ECB's website.

2 Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1). See also the corresponding ECB Opinion of 19 May 2011 on the proposal for a regulation of the European Parliament and of the Council on the European system of national and regional accounts in the European Union (OJ C 203, 9.7.2011, p. 3).

1.1 THE REASONS FOR REVISING THE STATISTICAL STANDARDS

Since the previous standards were introduced in the early 1990s, substantial changes have taken place in the world economy, along with statistical methodological developments and the availability of new data sources. The major driving force behind the economic changes was the globalisation of production. A shift of manufacturing production by multinational corporations to emerging countries resulted in the international fragmentation of production processes, facilitated by rapid advances in communication and information technology, and financial innovation. This fragmentation was accompanied by strong growth in services relative to manufacturing, and in financial services in particular. Specialised financial institutions outside the banking sector, such as financial vehicle corporations engaged in securitisation transactions, and previously less monitored financial instruments, such as credit default swaps and other financial derivatives, became increasingly important. In the EU the process of financial and economic integration accelerated, leading to the progressive realisation of EMU and the launch of the euro in 1999. Overall, measuring economic and financial activities has become more challenging and the need for internationally comparable statistics has increased. These new statistical challenges come on top of the long-established data needs for economic policy and administrative purposes in the EU. By way of example, the monitoring of government finance and, in particular, the excessive deficit procedure (EDP) require high-quality data that should be fully comparable across EU Member States. The same is true for determining Member States' respective contributions to the EU budget, as the calculation is based on gross national income (GNI). Moreover, in order to conduct monetary policy for the euro area and perform its supervisory role, the ECB requires up-to-date, reliable and comparable information on the macroeconomic situation and sectoral developments in the EU economy.

1.2 COORDINATED IMPLEMENTATION ACROSS THE EU

Ensuring the continued production of relevant and harmonised statistics for the EU and, in particular, for the euro area requires the new standards to be implemented across Member States in a well-coordinated manner. It was thus decided that all data transmissions are to be based on the new statistical standards from September 2014 for datasets relating to national accounts, balance of payments and government finance statistics, and from January 2015 for monetary and financial statistics. The ESCB is not only a user of statistics but develops, collects, produces and disseminates a wide range of European economic statistics. European statistics produced by the ESCB such as monetary and financial statistics (see the box), balance of payments statistics (see Section 2.4) and the quarterly sector accounts (see Section 2.5) have been adapted to the new international statistical standards. Indeed, the ECB is a member of a group of international organisations that have agreed to coordinate their dissemination of macroeconomic statistics so that releases of new data are synchronised.[3]

2 ENHANCEMENTS TO ECONOMIC INDICATORS AND DATA AVAILABILITY

This section explains the major methodological changes affecting national accounts, balance of payments and government finance statistics which will be introduced from September 2014. The changes relate to important variables, such as GDP and other macroeconomic aggregates, which include investment, exports and imports of goods and services, the international investment position and external debt, government deficit and debt statistics, private sector financing and balance

3 The Inter-Agency Group on Economic and Financial Statistics (IAG) comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the UN and the World Bank.

sheet developments. Table 1 provides an overview of the most relevant methodological changes and their impact on the main economic indicators.[4] However, while this article focuses on the methodological changes, statistical compilers will be introducing new sources and improved estimation methods which may have an impact on the levels and growth rates of economic indicators, and which may diminish or accentuate the effect of the methodological changes on the results.

Table 1 Expected impact of the main methodological changes on important macroeconomic variables

Variables	Change in level	Explanation
GDP and investment	Increase	• The ESA 2010 records expenditure on research and development and on military weapon systems as investment, rather than intermediate consumption. • Many Member States carry out a statistical benchmark revision (usually every five to ten years) to introduce new data sources and compilation methods. This generally has an upward effect on GDP and gross national income (GNI).
Net trade in goods and services	Increase or decrease	• Goods sent abroad for processing are no longer considered as exports/imports of goods as no change of ownership occurs. The valued added in processing is instead recorded as a manufacturing service. • Merchanting of goods is reclassified from services to exports of goods (in net terms) by the country of the merchant, although the goods do not physically cross the border. • Financial intermediation services indirectly measured (FISIM) are classified as financial services, rather than other investment income.
Net international investment position (i.i.p.) **External debt**	Increase or decrease Increase	• It is clarified that entities (such as special purpose entities) registered or incorporated in a country are deemed to be resident in that country, even if they have little or no physical presence there. • The treatment of the allocation by the IMF of special drawing rights as a liability of the central bank (or general government) will increase the external debt and decrease the net i.i.p. • The foreign direct investment relationship is extended to better cover complex, multi-economy corporate structures. Positions will be reclassified from other types of investment (portfolio or other investment) with, in principle, no effect on the total net i.i.p.
Government debt	Increase	• Stricter criteria will shift publicly controlled "borderline" entities into the government sector.
Government deficit	Increase or decrease	• The impact of the higher number of government entities on the government deficit may vary. • Settlements under swaps are no longer treated as interest (payable or receivable). The deficit may increase or decrease as a result. • Lump-sum payments to government to cover a transfer of pension liabilities will no longer reduce the deficit. If the lump sum is less than the pension liabilities transferred, the deficit will increase.
Household saving and pension claims	Increase	• Employer contributions to pension schemes record the increase in accrued pension rights of households. In the case of underfunded defined benefit pension funds, this will lead to increased income and saving of households as employer pension contributions are recorded as a part of compensation of employees, i.e. income, which is saved.
Non-financial corporation debt **Financial sector liabilities**	Decrease Increase	• Holding companies of non-financial corporations (not engaged in management) are reclassified from the non-financial corporations sector to the financial corporations sector because of the financial nature of their activities. • Some publicly controlled non-financial corporations will be classified in the government sector as a result of changed classification criteria (see the entry on government debt above). • The treatment of entities (such as special purpose entities) as resident in the country in which they are registered or incorporated, even though they have little or no physical presence there, will increase financial sector liabilities (see the entry on the net international investment position above).

4 See also Eurostat's dedicated web pages providing information on the ESA 2010 and the changes to the national accounts (available at http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction).

2.1 CHANGES TO GDP AND INVESTMENT

One of the major improvements in the ESA 2010 relates to the treatment of research and development (R&D) activities. Under the ESA 95 R&D is considered to be expenditure which is immediately "consumed" in the production process, i.e. intermediate consumption. This approach is similar to that of standard business accounting principles. Under the ESA 2010, however, R&D expenses are "capitalised", meaning that they are treated as an investment (similar to investments in equipment and structures). The rationale behind this is to capture the growing importance of R&D in a knowledge economy. For example, the development of computer software might require only a modest investment in equipment, but a major investment in developing and applying new information technologies. Thus, R&D expenditure can be regarded as contributing to future output. The capitalisation of R&D will have a direct effect on GDP as it will increase the level of investment and thereby final demand (and, as a corollary, decrease intermediate consumption by the same amount). Capitalised R&D expenditures will be added to the balance sheet and treated similarly to any other non-financial assets – and therefore will be subject to depreciation and write-offs. According to a preliminary estimate by Eurostat, the change in the treatment of R&D will account for an average increase in the level of GDP of 1.9% in the EU.[5] The impact on GDP growth rates, however, is likely to be very small. The change will also influence other indicators that are contingent on the level of GDP, such as debt and deficit ratios.

Another methodological change involves military expenditure. In the ESA 95 a distinction applies to equipment that can have a civilian use (such as airfields, roads and hospitals), as opposed to purely military equipment (such as military aircrafts, ships and tanks). The former are treated as investment whereas the latter are treated as final consumption in the year in which the expenditure took place, regardless of the likely length of the equipment's service life. Under the ESA 2010 both types of investment will be treated in the same way, i.e. as capital expenditure. As with other investments in equipment and structures, military assets will be subject to depreciation over their estimated service life. It is estimated that in the EU the average increase in the level of GDP will be around 0.1% of GDP.

When implementing the changes introduced by the ESA 2010, it is likely that Member States will take advantage of the opportunity to make benchmark revisions at the same time. New data sources, compilation methods and estimates for areas not covered under the ESA 95 might be introduced. Furthermore, many Member States will begin including illegal activities in the national accounts. This is therefore one of the areas where improved coverage and/or improved estimation methods are expected to affect GDP and thus GNI. Illegal activities are already covered by the statistical methodology of the ESA 95, but treatment of these activities has continued to vary among Member States given the difficulties in measuring them. However, in the context of harmonising the method of compiling GNI for the EU budgetary process (national contributions), all Member States must follow common guidelines on, inter alia, the measurement of illegal activities. As a consequence, although these guidelines are independent of the ESA 2010, several Member States will also include estimates of certain illegal activities in their ESA 2010 September 2014 revisions.

5 For the EU, see the Eurostat press release on the estimated impact of the ESA 2010, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/documents/technical_press_briefing_ESA_2010.pdf
For the United States, the impact of the capitalisation of R&D was 2.5% of the increased GDP for the period 2010-12 (i.e. after the new standards were introduced).

IMPROVEMENT IN PUBLICATION TIMELINESS

The timeliness of publishing quarterly GDP data and the main aggregates for the EU Member States will be improved. Under the ESA 2010, the release deadlines will be brought forward to two months after the reference quarter, from the current deadline of 70 days after the reference quarter. The EU and euro area main aggregates will therefore also become available two months after the reference quarter. The release schedule for the GDP flash estimate remains the same, i.e. 45 days after the reference quarter.

2.2 CHANGES TO TRADE IN GOODS AND SERVICES

As mentioned above, globalisation implies the international dispersion of a company's production processes for goods and services. Manufacturing a computer or transport equipment can involve producers in several different countries and it has become increasingly difficult to consistently trace the flows of goods (merchandise trade) across national boundaries. The BPM6 and the SNA 2008 clarify that the only basis for recording international trade is a change in ownership of the goods concerned and not merely the physical cross-border movement of goods. For example, when multinational companies send goods for processing to a different country, no change in ownership occurs. It follows that no export of goods is recorded when the goods are sent abroad for processing and no import of goods is recorded when the processed goods return to the home country. Instead, the processing of the goods is recorded as an import of a manufacturing service by the home country. This new treatment will result in a decrease in the level of imports and exports of goods in both the home country and the processing country. It will similarly increase the level of imports of services in the home country and the level of exports of services in the processing country.

The "change in ownership" principle is also applied to merchanting. Merchanting occurs when a trader purchases a good from a non-resident and subsequently resells it (usually at a profit) to another non-resident, without the good entering the merchant's economy. Under the BPM5 and the ESA 95, the physical flow of goods is recorded as an export of the country of origin (reflecting the purchase price) and an import of the destination country by the same amount. The trade margin of the merchant is recorded as an export of services of the home country of the merchant and an import of services by the destination country. Under the BPM6 and the ESA 2010, and based on the "change in ownership" principle, merchanting will instead be recorded as a trade in goods from the country of origin to the home country of the merchant and an export from the home country of the merchant to the country of destination. The trade margin is reflected in the merchant's country as a net export of goods.

Another reclassification (under the BPM6 only) that will affect the services account is the inclusion of financial intermediation services indirectly measured (FISIM) as a financial service. Financial intermediaries typically offer their depositors lower rates of interest than those they charge to their borrowers. This margin is included as part of interest income under the BPM5, however the BPM6 distinguishes between "pure" interest as income and the resulting interest margin as a service. This is consistent with the treatment of FISIM under the ESA 2010 (and the ESA 95).

2.3 CHANGES TO GOVERNMENT DEBT AND DEFICIT

GOVERNMENT DEBT

In order to obtain reliable and accurate data on government debt and deficit levels, it is necessary to determine which entities belong to the general government sector. However, it is not straightforward to identify the correct sector in which to classify companies or organisations that are owned or subsidised by government and that are involved in providing goods and services for public use,

such as public schools, hospitals, transport companies and utility providers. In the ESA 95 the main criterion used to decide whether a public company is part of the general government sector is essentially quantitative, consisting of an assessment of the company's production costs in relation to its sales. If the entity is not able to cover at least half of its production costs by the proceeds of the sale of its goods and services, the entity is deemed to be part of the general government sector. By contrast, if its sales do cover at least half of the production costs, the entity is considered to be a non-financial corporation. However, the ratio of costs to sales can fluctuate over time, which leads to difficulties in determining the composition of the general government sector. In the ESA 2010 more emphasis is placed on qualitative criteria, such as the entity's economic motivation, independence in respect of undertaking a profit-making activity and the ability to pay its debts without government support, in order to ensure that only independent entities that are motivated by market competition fall outside the general government sector. The change in the criteria for determining whether an entity is part of the general government sector is likely to increase the number of units classified in the sector and thereby increase government debt.

GOVERNMENT DEFICIT

The above-mentioned changes with regard to the general government sector classification criteria will also have a small effect (increase or decrease) on government deficit levels.

In addition, the definition of government deficit used for the EDP will change with the implementation of the ESA 2010. Its predecessor, the ESA 95, lays down the concept of EDP interest, which includes the net interest flows under swaps and forward rate agreements (FRAs) concluded by government with non-government entities.

Swaps and FRAs are used by debt managers to hedge the interest rate or exchange rate risk on outstanding government debt. For example, a swap could be an agreement to exchange a floating rate of interest for a fixed rate of interest. The net interest flows resulting from these swaps and FRAs are included in the EDP deficit to reflect the impact of the swaps on the government debt service. Thus, the EDP deficit could be higher (or lower) than the government deficit in the national accounts if the government has had to pay (or has received) net interest flows under swaps and FRAs. The concept of EDP interest has not been retained in the ESA 2010 and so a single definition of government deficit will apply. However, the impact of net interest flows under swaps and FRAs on the EDP deficit/surplus figures is marginal for most Member States. The exclusion of net interest flows from the government deficit under the ESA 2010 will therefore have only a small effect in most EU countries.

Another change that will have an impact on the government deficit in some Member States concerns the treatment of pension transfers to government. In recent years, several Member States have implemented pension system reforms under which lump-sum payments have been made to government in exchange for the government taking over pension liabilities (from either public or private corporations). Under the ESA 95, these lump sums are treated as government revenue and improve the government deficit/surplus. However, this recording distorts the deficit/surplus as it only accounts for the payments received by government and disregards the corresponding liabilities in the form of the future pension payments for which the government has become responsible. The ESA 2010 introduces a change in order to improve the transparency of the government deficit/surplus. In addition to the assets transferred, a pension liability is recorded in the government accounts and, as a result, there is no impact on the government surplus/deficit at the time of the transaction. However, where the value of the assets received by government is lower than the expected future pension payments, the difference is recorded as a capital transfer, which increases the government deficit (or lowers the surplus).

It is important to note that the debt-to-GDP and deficit-to-GDP ratios (which are relevant for the EDP) will also be affected by the changes to GDP explained in Section 2.1 of this article. As GDP levels are generally expected to increase, debt-to-GDP and deficit-to-GDP ratios will decline.

2.4 CHANGES TO THE INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT

The overall framework and the broad definitions contained in the IMF's BPM5 remain the same in the BPM6, leading to a high degree of continuity between the two versions. Table 2 presents an overview of the main reclassifications and changes in concepts and terminology, as well as developments with regard to the statistical treatment of the current, capital and financial accounts of the balance of payments. The changes in the financial account of the balance of payments are also applicable to the international investment position and to external debt.

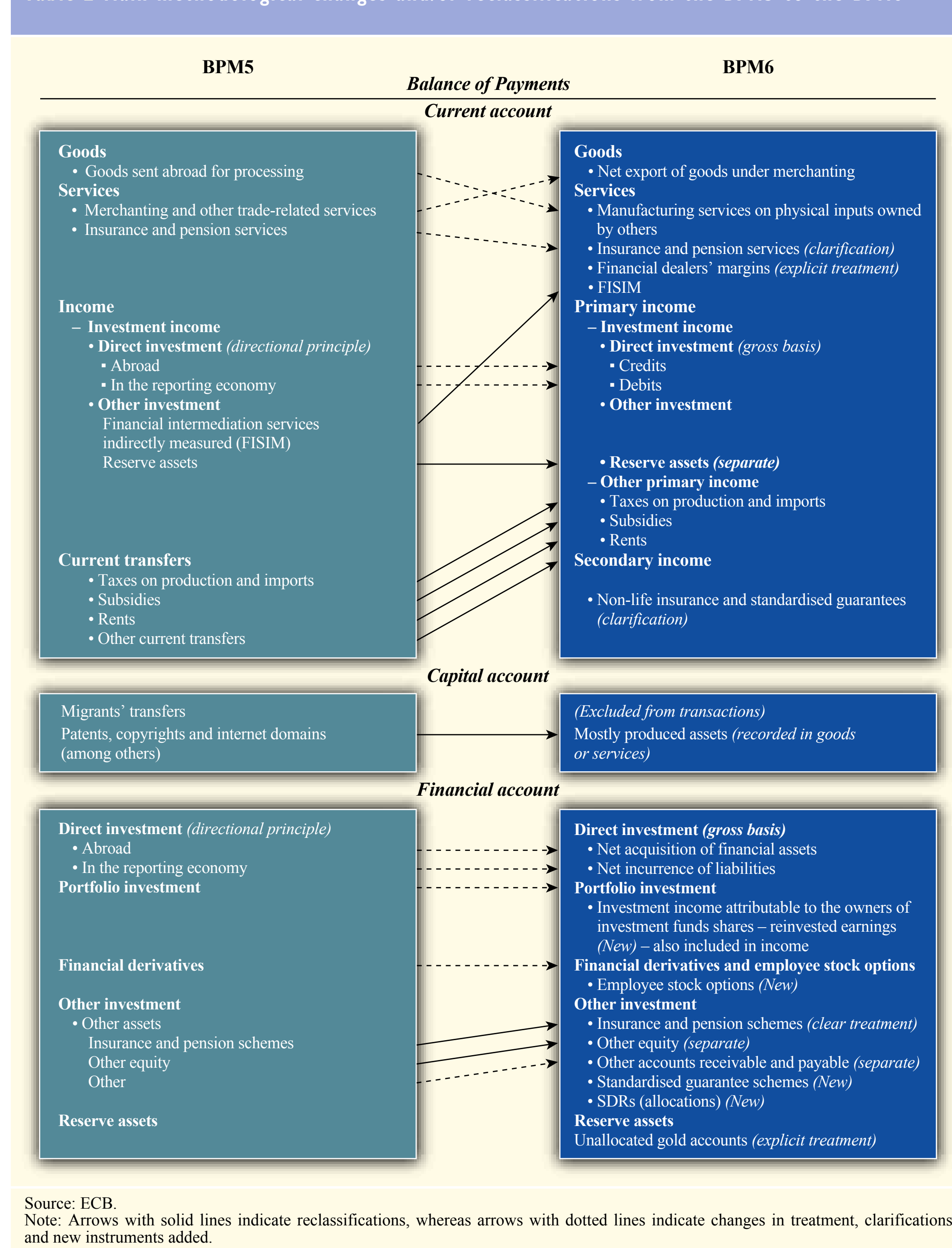
The BPM6 introduces an integrated view of transactions, other changes and positions as a tool to facilitate the analysis of international economic developments and, in particular, countries' vulnerability and sustainability. This balance sheet approach enables a better understanding of the changes between two periods in the quarterly international investment position through a breakdown into balance of payments transactions, price and exchange rate revaluations and other changes, such as, for example, write-offs and sector or geographical reclassifications.

In addition, although already mentioned in the BPM5, the BPM6 provides more specific guidance on the residence and activity of special purpose entities (SPEs) and other legal structures, generally used for holding assets, that are incorporated or registered in a country but with little or no physical presence there. Some euro area countries, such as Cyprus and Malta, have so far not included these types of entity as residents in the reporting economy and so the increased coverage may have a considerable impact on the euro area aggregates. The euro area external debt and the euro area foreign direct investment assets and liabilities will increase. The net effect, however, and therefore the impact on the net euro area international investment position, will depend on the geographical location of the company structure of the group to which the SPE belongs. Thus, if both assets and liabilities of these companies are vis-à-vis euro area residents, the net effect on the euro area international investment position will be nil. Similarly, if both assets and liabilities are vis-à-vis non-euro area residents, the net effect will also be nil, although in that case the euro area assets and liabilities will increase equally. However if the assets are vis-à-vis euro area residents and the liabilities are vis-à-vis non-residents – or vice versa – then the effect on the net euro area international investment position will be noticeable. By way of example, if an SPE – which is a resident of Malta and whose parent company is resident in Switzerland – invests in a Dutch company, this will increase the direct investment liabilities of the euro area and will therefore reduce the net international investment position. However, if the Maltese SPE invests in the United Kingdom, the euro area direct investment assets will increase by the same amount as the liabilities and the net international investment position will not be affected.

The special drawing right (SDR) is an international reserve asset created by the IMF to supplement IMF member countries' existing official reserves. In the BPM6, new distributions of SDRs to participants in the IMF SDR Department are recorded as increases in gross reserve assets (holdings of SDRs) and, at the same time, as long-term debt liabilities of the countries to which they are allocated (allocations of SDRs). Holdings of SDRs by an IMF member country have always been recorded as an asset (in terms of reserve asset positions), but the corresponding liability, the

so-called "allocations of SDRs", is not recorded at all under the BPM5. The BPM6 considers the allocation of SDRs as the incurrence of a debt liability of the receiving member country because of the requirement to repay the allocation in certain circumstances and also because interest accrues.

Table 2 Main methodological changes and/or reclassifications from the BPM5 to the BPM6



Source: ECB.
Note: Arrows with solid lines indicate reclassifications, whereas arrows with dotted lines indicate changes in treatment, clarifications and new instruments added.

This new treatment will increase the gross and net external debt of the central bank or general government as well as decrease the net international investment position.[6]

The BPM6 introduces some clarifications in the field of direct investment with regard to complex, multi-economy corporate structures. Direct investment is cross-border investment associated with an investor having control over, or influence on, the management of an enterprise resident in another economy. The BPM6 develops further the concepts of control and a significant degree of influence, the treatment of a chain of direct investment relationships, immediate and indirect direct investment and fellow enterprises (enterprises under the control or influence of the same direct investor, i.e. companies that belong to the same group although they do not have any relation of influence).[7] As a consequence, the direct investment relationship has been extended to fellow enterprises and other companies of the same group not previously covered by the 10% direct influence rule. Therefore, some transactions currently reported under another type of investment, such as portfolio or other investment, may be reclassified as direct investment under the BPM6. In addition, foreign direct investment is now primarily presented on a gross assets and liabilities basis. Finally, given their relevance for statistical analysis, the BPM6 requires the flows included in direct investment to be identified as (i) investment by a direct investor in direct investment enterprises (directly or indirectly controlled), (ii) reverse investment (flows from the direct investment enterprises to the direct investor), and (iii) investment between fellow enterprises. The directional principle (investment abroad and in the euro area) has been revised in the BPM6 and could eventually be used as an alternative means of presentation.

ENHANCEMENTS TO DATA AVAILABILITY

The ECB has laid down new reporting requirements for euro area NCBs in the field of external statistics, i.e. balance of payments, international investment position and international reserves statistics.[8] Although the external statistics Guideline reflects the methodological and reporting changes introduced by the BPM6, it also introduces a more granular geographical breakdown of

Table 3 Sector breakdowns for the euro area balance of payments and international investment position aggregates

BPM5		BPM6	
Monthly	Quarterly	Monthly	Quarterly
Eurosystem	Eurosystem	Eurosystem	Eurosystem
Other MFIs	Other MFIs	Other MFIs	Other MFIs
		Deposit-taking corporations excl. Eurosystem	**Deposit-taking corporations excl. Eurosystem**
		Money market funds	**Money market funds**
Non-MFIs	Non-MFIs		
	General government	General government	General government
	Other sectors	Other sectors	Other sectors
			Financial corporations
			Non-financial corporations, households and NPISHs

Source: ECB.
Notes: Monthly frequency covers only the balance of payments; “other MFIs” refers to monetary financial institutions excluding central banks; and “NPISHs” refers to non-profit institutions serving households.

6 The IMF implemented a USD 250 billion general SDR allocation on 28 August 2009 and a special (one-time) SDR allocation of USD 33 billion on 9 September 2009. Euro area SDR holdings and allocations increased by EUR 45 billion.

7 These changes are consistent with the OECD Benchmark Definition of Foreign Direct Investment (fourth edition, 2008), which provides operational guidance on how foreign direct investment activity should be measured. It is the global standard for direct investment statistics.

8 Guideline of the European Central Bank of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (recast) (ECB/2011/23), OJ L 65, 3.3.2012, p. 1, as amended by Guideline ECB/2013/25 of 30 July 2013, OJ L 247, 18.9.2013, p. 38.

quarterly international investment positions, and a sector breakdown of the economy in line with the euro area monetary statistics and the financial and non-financial sector accounts. Table 3 shows the changes in data availability by sector for the euro area aggregates.

2.5 CHANGES TO SAVING, DEBT AND PENSION CLAIMS AFFECTING HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

The ECB requires comparable, up-to-date and reliable statistics broken down by the institutional sectors of the economy, including households and non-financial corporations. For this purpose, the ECB and Eurostat jointly produce the quarterly euro area accounts (EAA). The EAA provide comprehensive information on the income, spending, financing and wealth developments of institutional sectors of the euro area. They are produced by integrating the quarterly financial accounts with the quarterly non-financial sector accounts. The ECB recently amended its reporting requirements on the quarterly financial accounts in order to bring them into line with the ESA 2010, improve timeliness and obtain more detailed data at the sector, instrument and flow levels.[9] The enhanced financial accounts will be combined with the new reporting for non-financial sector accounts (as transmitted by Member States to Eurostat) to compile the EAA, based on the ESA 2010, from October 2014 onwards.

NON-FINANCIAL CORPORATION DEBT AND FINANCING

The most important change concerns the statistical definition of the non-financial and financial sectors of the economy.[10] The change will enhance the analysis of the financing of the non-financial corporations sector. The effect will be to reduce the recorded debt of non-financial corporations while increasing the liabilities of the financial corporations sector.

The ESA 95 limits the financial sector to financial intermediaries and the (much smaller) subsector of financial auxiliaries. Financial intermediaries raise funds from the public (e.g. through deposits, investment funds shares, and/or life insurance policies) and lend those funds to the public or invest them in financial markets. This restrictive definition therefore excludes, for example, units such as SPEs that provide financial services to an enterprise group rather than to the public. The ESA 2010 extends the financial corporations sector to include so-called captive financial institutions and money lenders. This subsector includes SPEs that raise funds in open markets on behalf of their parent companies and "passive" holding companies that do not manage their subsidiaries. This change has the advantage that the debt financing raised by SPEs or holding companies will be allocated to the debt of the financial sector. Moreover, only the direct funding granted by SPEs or holding companies to non-financial corporations will be recorded as debt of the non-financial corporations sector. The new classification of holding companies, SPEs and similar units will lower the recorded debt of non-financial corporations and increase the liabilities and assets of financial corporations. The impact of this change is expected to be sizeable in some Member States.

HOUSEHOLD SAVING AND PENSION ENTITLEMENTS

The ESA 2010 provides more detailed guidance on pension-related assets and liabilities which will affect the recording of pension claims of households on pension funds and the liabilities of corporations with pension commitments towards their employees. If an employer has set up an autonomous pension fund for its employees but retains the responsibility for a deficit in funding, any deficits (or surpluses) are to be recorded as claims (or liabilities) of the pension fund against

9 Guideline of the European Central Bank of 25 July 2013 on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (recast) (ECB/2013/24), OJ L 2, 7.1.2014, p. 34.

10 The changes in respect of SPEs will have an impact on the recording of financial corporations (see Section 2.4).

the employer. Under (or over) funding of employer pension funds may occur in the case of defined benefit schemes, i.e. schemes where the benefits are predetermined, for example based on the policy-holder's pay and years of service.[11] Furthermore, there is a requirement to calculate pension contributions on an accruals basis, reflecting the increase in accrued pension rights in a given period, irrespective of the actual payments made.[12] This change will provide a more realistic picture of pension claims and liabilities and will also have an impact on disposable income and saving. The extent of the impact of these changes to the recording of pensions will depend on the prevalence of defined benefit employer pension schemes in a country. By way of example, in the United Kingdom, where such pension funds are quite common, the introduction of accruals accounting is expected to lead to a substantial upward revision of recorded pension contributions. This is likely to lead to lower measures of profits, income and saving of corporations and, at the same time, to increased income and saving of households as employer pension contributions are recorded as a part of compensation of employees, i.e. income, which is saved.[13]

These changes only affect employer pension funds, namely pension funds that are set up independently of government. Claims on social security pension systems remain outside the "core" national accounts. However, under the ESA 2010 transmission programme, a new, supplementary table on pension entitlements requires the calculation of households' accrued pension entitlements including social security pension entitlements. This will provide a complete statistical presentation of accrued pension entitlements from both employer and social security pension schemes.

STANDARDISED GUARANTEES AND FINANCIAL DERIVATIVES

The ESA 2010 adds some new financial instruments and gives further guidance in order to ensure that all relevant financial positions and flows are recorded in the financial accounts. A new financial instrument under the ESA 2010 relates to "provisions for calls under standardised guarantees". Standardised guarantees are guarantees that are issued in large numbers, usually for fairly small amounts, and protect against similar events. The ESA 2010 recognises that although it is difficult to establish the likelihood of, for example, any one borrower defaulting, it is nevertheless possible to make a reliable estimate of the number of calls that will be made under the guarantee. Thus, standardised guarantees are to be recorded as financial assets and liabilities. This is of particular relevance where government provides standardised guarantees, e.g. for student loans.[14] A further amendment to the financial instrument coverage is the clarification that employee stock options are to be recorded as a component of financial derivatives, a component for which no fully harmonised treatment exists under the ESA 95.[15]

ENHANCEMENTS TO DATA COVERAGE AND AVAILABILITY

The financial accounts show outstanding amounts of financial assets and liabilities and provide information on the changes over time in terms of transactions, revaluations and other changes. As mentioned above, the ESA 2010 adds some new financial instruments and provides clarification and

11 As opposed to defined contribution schemes where the benefits are determined by developments in the pension fund's assets.
12 The employer's contribution in a period is calculated as the increase in the net present value of the pension entitlements estimated using actuarial methods based on demographical and financial assumptions, minus administration costs and any contributions from the employee.
13 The UK Office for National Statistics expects the ESA 2010 to have an effect on the household saving ratio of between 3.4 and 6.3 percentage points for the years 1997 to 2011 (see http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/articles/2011-present/introducing-developments-to-measurement-of-pensions-data-and-the-impact-on-household-savings-1997-to-2011/index.html).
14 Standardised guarantees are akin to insurance contracts. Insurance corporations' provisions for guarantees against credit default are already recognised as credit insurance under the ESA 95. This new financial instrument subcategory therefore covers the extension of standardised guarantees by non-insurance corporations and government.
15 The ESA 2010 also clarifies that employee stock options are to be recorded as compensation of employees.

guidance to ensure that all relevant financial positions and flows are covered in the financial accounts. The most important enhancement in terms of EAA data availability will be a much shortened delay in publication. While the EAA are currently published about four months after the end of a quarter, publication under the ESA 2010 will be progressively reduced to about three months. This will increase the usefulness of the EAA for monetary policy analysis. Furthermore, the EAA will also benefit from improved data availability for the new financial subsectors. Based on recent amendments to the ECB's statistical reporting requirements, comprehensive data sources have been developed covering non-money market investment funds and insurance corporations (see the box).

Box

IMPACT OF THE NEW INTERNATIONAL STATISTICAL STANDARDS ON OTHER ECB STATISTICS

Council Regulation (EC) 2533/98 on the collection of statistical information by the ECB, along with the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB, provide the framework for the ECB's statistical work.[1] The legislation empowers the ECB to adopt regulations specifying the statistical reporting requirements of financial corporations in the euro area and guidelines determining the harmonised statistics to be produced by the ECB and euro area NCBs. These requirements have recently been amended to bring them into line with the new statistical standards. The amendments are important in the light of the high policy relevance of these datasets, but also because they provide an essential source of information for compiling the national and euro area financial accounts and balance of payments statistics.

Implementation in monetary and financial statistics

The data collection frameworks of monetary and financial statistics (MFS) have been adapted to reflect the new international statistical standards. These changes are relevant to keep the frameworks fit for policy-making purposes and to optimally support the new presentation of the national and euro area financial accounts and balance of payments statistics, for which the MFS represent an important source of information. In particular, new regulations have been adopted in the area of MFI balance sheet statistics and statistics on the assets and liabilities of investment funds and financial vehicle corporations engaged in securitisation transactions. The changes reflect the revised international statistical standards, as well as new user requirements. The new data requirements notably cover more granular breakdowns in counterparty sectors and instrument categories. As reporting agents and NCBs need to be given enough time to prepare, reporting under these new legal acts will begin with data for the reference period December 2014 and the resulting statistics will be published in 2015, when annual growth rates can be produced for the new breakdowns. To bridge the gap in the interim period, NCBs and the ECB will make estimations when using MFS in compiling the national accounts and balance of payments statistics. More detailed information on these changes will be made available at a later stage, after the new data are published. It is worth noting that several other initiatives are ongoing with regard to MFS. In particular, new statistics on insurance corporations are currently being prepared. Securities issues statistics have also been reviewed to align the breakdowns of sectors and instruments with the new standards.[2]

1 Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank (OJ L 318, 27.11.1998, p. 8), as amended.

2 The relevant MFS regulations and Guideline ECB/2014/15 on monetary and financial statistics (recast) are available on the ECB's website (see https://www.ecb.europa.eu/ecb/legal/1005/1021/html/index.en.html).

New securities holdings statistics

The ECB has recently begun collecting detailed information on securities holdings statistics. The resulting dataset will follow the ESA 2010 standards from the outset. The data include holdings of individual securities by (i) euro area investors, (ii) non-euro area investors concerning securities issued by euro area residents kept in custody in the euro area, and (iii) individual banking groups identified as important for the stability and functioning of the financial system in the euro area and/or in any euro area Member State. The reporting population consists of resident MFIs, investment funds, financial vehicle corporations, custodians and the parent companies of reporting banking groups. The first reporting of debt securities, listed shares and investment fund shares and units took place in March 2014, with reference to the last quarter of 2013. The new data on securities holdings are expected to significantly contribute to increasing the coverage and quality of the statistics needed for monetary analysis and other policy purposes. In addition, they will contribute to the assessment of financial developments, financial integration and financial stability, giving a timely and more accurate insight into euro area-wide and national holdings of specific securities. Finally, the new data will be used to enhance the EAA as it will be possible to match information on the issuance of securities by sector with information on the respective sectoral holdings.

Table 4 summarises the impact of the reclassification of holding companies and the changes in financial sector data availability on the sector breakdown in the quarterly financial accounts published by the ECB.

Table 4 Breakdown of the economy by institutional sector in the quarterly financial accounts

ESA 95	ESA 2010
Non-financial corporations *-including:* *holding companies of non-financial subsidiaries*	**Non-financial corporations**
Monetary financial institutions	**Monetary financial institutions**
Other financial intermediaries, except insurance corporations and pension funds, and financial auxiliaries	**Non-money market investment funds**
	Other financial intermediaries, except insurance corporations and pension funds, as well as financial auxiliaries and captive financial institutions and money lenders
Insurance corporations and pension funds	**Insurance corporations**
	Pension funds
General government	**General government**
Households (and NPISHs)	**Households** (and NPISHs)

Source: ECB.

The EAA will also provide a more detailed instrument breakdown for financial assets and liabilities. The separate recording of trade credits and the more detailed split of shares and other equity had been requested by data users, in particular for the analysis of equity and debt financing of non-financial corporations. Table 5 summarises the changes to the financial instrument breakdown in the quarterly financial accounts published by the ECB.

Table 5 Breakdown of financial assets and liabilities in the quarterly financial accounts

ESA 95	ESA 2010
Monetary gold and SDRs	Monetary gold SDRs
Currency	Currency
Deposits	Transferable deposits Other deposits
Securities other than financial derivatives	Debt securities
Loans	Loans
Quoted shares	Listed shares
Unquoted shares and Other equity	Unlisted shares Other equity
Mutual funds shares	Money market fund shares/units (MMFs) Non-MMF investment fund shares/units
Prepayment of insurance premiums and reserves for outstanding claims	Non-life insurance technical reserves Provisions for calls under standardised guarantees
Net equity of households in life insurance reserves	Life insurance and annuity entitlements
Net equity of households in pension fund reserves	Pension entitlements Claims of pension funds on pension manager (and entitlements to non-pension benefits)[1]
Financial derivatives	Financial derivatives and employee stock options
Trade credits and advances and "other accounts payable/receivable other than trade credits and advances"	Trade credits and advances Other accounts payable/receivable excluding trade credits and advances

Source: ECB.
1) Entitlements to non-pension benefits are likely to be of very little relevance.

2.6 PUBLICATION DATES FOR EURO AREA STATISTICS AND SELECTED NATIONAL DATA BASED ON THE ESA 2010 AND THE BPM6

EU Member States will transmit their national accounts, government finance and balance of payments data according to the new standards starting in September 2014. Improvements in the timeliness of the new data requirements, in particular for GDP data and the EAA, will result in the release dates of national data to the public being brought forward from October 2014 onwards. However, for the first transmission, it is expected that there will be some delays in validating national data and compiling the euro area and EU aggregates. The first publication dates will therefore not fully reflect the improvements in the timeliness envisaged for the data requirements. Table 6 summarises the information on data availability for the main macroeconomic datasets that is currently available.

Table 6 Publication of the main macroeconomic datasets according to the new standards

Dataset	First publication date under the ESA 2010/BPM6	Periods covered
Annual national accounts, main aggregates (EU and euro area aggregates and national data)	Mid-October 2014	1995-**2013**
GDP flash release (EU and euro area aggregates and national data)	14 November 2014	**Q3 2014**
GDP main aggregates (EU and euro area aggregates and national data)	Mid-October 2014	Q1 1995-**Q2 2014**
Employment (EU and euro area aggregates and national data)	12 December 2014	Q1 1995-**Q3 2014**
Government: EDP deficit and debt (national data)	21 October 2014	2010-**2013**
Government: (breakdowns of) government revenue and expenditure, annual	23 October 2014	1995-**2013**
Government: financial and non-financial accounts, quarterly	23 October 2014	Q1 1999-**Q2 2014**
Government: debt, quarterly	23 October 2014	Q1 2000-**Q2 2014**
International reserve assets and foreign currency liquidity	31 October 2014	**September 2014**
Euro area accounts:	November 2014	
– quarterly financial accounts (euro area aggregates and national data)		Q4 2012-**Q2 2014**
– quarterly non-financial accounts (euro area aggregates and national data)		Q1 1999-**Q2 2014**
Euro area balance of payments	Q4 2014	January 2013-**August 2014**
Euro area international investment position	Q4 2014	Q1 2013-**Q2 2014**

Source: ECB.

DATA ACCESS CHANGES

The implementation of the ESA 2010 and the BPM6 will be accompanied by a change in the data codification structure used for disseminating macroeconomic data and balance of payments statistics. A new standard, the Statistical Data and Metadata eXchange (SDMX), will be introduced to harmonise the naming conventions for macroeconomic and balance of payments time series. This change is especially relevant to those users who use time series codes when extracting data from the ECB's Statistical Data Warehouse (SDW). Detailed information on the revised data structure and series codes will be provided before the first publication of the new series. Data based on the previous methodology (ESA 95 and the BPM5) will no longer be updated once the new standards have been introduced but will be retained in the SDW and on Eurostat's website.

3 CONCLUDING REMARKS

The ECB, as both a producer and user of statistics, welcomes the introduction of the new statistical standards. They contribute to improving the quality of European statistics by bringing them into line with the changes in the economic and financial environment. Relevant and timely statistics are vital for monetary policy purposes. While the changes owing to the introduction of the new standards are unlikely to have a significant impact on the assessment of economic and financial developments, the enhanced consistency between statistical areas and between Member States is key for monetary policy-making. Furthermore, new and more detailed information and improved timeliness will also increase the relevance of the statistics for macroeconomic surveillance and other purposes.