

SPECIAL ANALYSIS

National accounts to move to ESA 2010

From 18 September, Statistics Sweden will switch to publishing the national accounts in line with the new ESA 2010 rules, which update the current ESA 95 to a more modern description of the economy. Other countries will also be migrating. The introduction of ESA 2010 entails changes in more than 40 areas, of which a dozen will affect GDP and GNI to varying degrees. The following summarises some of the most important changes for Sweden's part.⁵⁷

NEW APPROACH TO R&D THE MOST IMPORTANT FACTOR IN ESA 2010 PUSHING UP GDP AND GNI

Calculations performed by Statistics Sweden suggest that the introduction of ESA 2010 will increase Swedish GDP and GNI in 2011 by around 4 per cent.⁵⁸ The change with the greatest impact on Swedish GDP is that research and development (R&D) costs will no longer be treated as expenditure but as capital formation.⁵⁹ This change accounts for around 80 per cent of the overall increase and affects both purchased and own-account R&D. With own-account R&D, the value of the investment is based largely on costs incurred, but in the case of market producers there is also a mark-up to reflect market value better.

Another major change, which accounts for around 10 per cent of the overall increase in GDP, concerns military equipment. Under ESA 95, only military equipment and facilities that could also be put to civilian use were recorded as capital formation. All other military equipment was recorded as current expenditure even if used for several years. Under ESA 2010, what were previously referred to as "military capital assets" will change name to "military weapons systems", and these weapons systems will be recorded as capital formation rather than expenditure. In the year of acquisition, GDP will not be higher because government consumption will decrease by the same amount. In subsequent years, however, government consump-

⁵⁷ For a more detailed description, see "Manual on the Changes between ESA 95 and ESA 2010", Eurostat, November 2013.

⁵⁸ Besides the effect of the transition to ESA 2010, GDP and GNI will increase further by approximately 1 per cent as a result of a general review of the national accounts estimates that will be presented at the same time. See "Sweden's economy – statistical perspective", Statistics Sweden, June 2014.

⁵⁹ One exception is such purchases in SNI sector 72 (scientific research and development).

tion will be higher under ESA 2010 (by each year's capital consumption) until the investment has been written off.

EXPORTS AND IMPORTS WILL BE LOWER, BUT NET FOREIGN TRADE WILL BE UNCHANGED

One important change in the recording of foreign trade concerns goods sent abroad for processing and then returned to the owner in the original country. Under ESA 95, it was the crossing of a national boundary that determined whether or not an activity counted as foreign trade. All flows across national borders were therefore recorded as exports and imports. Under ESA 2010, however, there must also be a change of ownership. This means that only the value of the processing carried out abroad is recorded, as an import of goods, and no exports are recorded. Where such processing takes place in Sweden, it is recorded as an export of goods. Both exports and imports will therefore be lower than today, but the net of these transactions will be unchanged.

The accounting treatment of merchanting will also change under ESA 2010. In the foreign trade statistics, this is where, for example, a Swedish firm purchases goods abroad and sells them on to a foreign customer without the goods actually entering Sweden. A special case is where a Swedish firm invoices supplies from a foreign subsidiary to a foreign end-customer. Under ESA 95, the margin on the transaction was recorded as an export of services, while the receiving country recorded the total value of the goods as an import, resulting in an imbalance in the recording of international trade in goods and services. With the introduction of ESA 2010, merchanting transactions will instead be treated as exports of goods. The overall level of exports will be unaffected, but it means that in 2013, for example, exports worth more than SEK 70 billion will be recorded as exports of goods rather than exports of services.

SOME FIRMS WILL MOVE FROM THE PRIVATE TO THE PUBLIC SECTOR

The implementation of ESA 2010 will see 25 enterprises currently included in the business sector (including a number of large hospitals) being transferred to the public sector as a result of a review of the boundary between the public and private sectors. This will not affect general government consumption expenditure, because there will be a redistribution from social assistance benefits in kind (around SEK 7 billion in 2011) to own-account production. GDP will not change, therefore, but business sector production will decrease and public sector produc-

tion will increase. Employees and hours worked at the firms in question will be transferred from the private to the public sector. According to information from Statistics Sweden, this will apply to around 11,000 workers.

The recording of pensions will also change. The new rules mean, for example, that total occupational pension obligations in the central government sector will be included in central government financial liabilities in the same way that the equivalent obligations in the local government sector are already part of local government financial liabilities. At present, only inward and outward payments are included in the national accounts. This change in the treatment of pensions will not affect Maastricht debt because pensions are not included in that measure.

TAX BECOMES CURRENT TRANSFER, PUSHING UP GNI

Another example of how ESA 2010 will affect the national accounts is that the VAT-based third EU own resource will be treated as a current transfer rather than a tax, which will push up GNI by around 0.2 per cent.

LIMITED IMPACT ON FORECASTS

The change of rules ought to have only a marginal impact on the NIER's analyses and forecasts of economic developments. In a number of areas, the statistics will nevertheless be affected in ways that should be borne in mind when analysing them. For example, the new estimates will paint a slightly different picture of capital formation in the economy, which will be higher than the current estimates indicate. In 2013, capital formation accounted for just over 18 per cent of GDP; once ESA 2010 is applied, this will rise to nearly 22 per cent. Around three-quarters of the increase in GDP relates to business sector production, resulting in higher operating profits and so a slightly higher profit margin historically than in the current estimates. Maastricht debt will also fall from 39 to 37 per cent of GDP due to the higher level of GDP.

Most of the statistics will not, however, be affected by the transition. For example, the long-term sustainable rate of wage growth compatible with the inflation target will not be impacted at all by the new rules.