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THE COUNCIL

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### LEGISLATIVE ACTS AND OTHER INSTRUMENTS

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Subject: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE  
COUNCIL on the European system of national and regional accounts in  
the European Union  
(ESA 2010) - (Annex A - Chapter 19)  
**COMMON GUIDELINES**  
**Consultation deadline for Croatia: 17.4.2013**

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# CHAPTER 19

## EUROPEAN ACCOUNTS

### INTRODUCTION

- 19.01 The process of European integration made it necessary to compile a full set of accounts that reflect the European economy as a whole and enable better analysis and policy making at the European level. European accounts cover the same set of accounts, and are based on the same concepts, as the national accounts of the Member States.
- 19.02 This chapter describes the distinguishing features of European accounts, that is, the accounts of the European Union and of the euro area. European accounts require particular attention to be given to the definition of resident units, rest of the world accounts and the netting of intra-European economic transactions (flows) and financial balance sheets (stocks).
- 19.03 The economic territory of the European Union consists of:
- (a) the economic territories of the Member States of the European Union; and
  - (b) the economic territories of European institutions.

19.04 The economic territory of the euro area consists of:

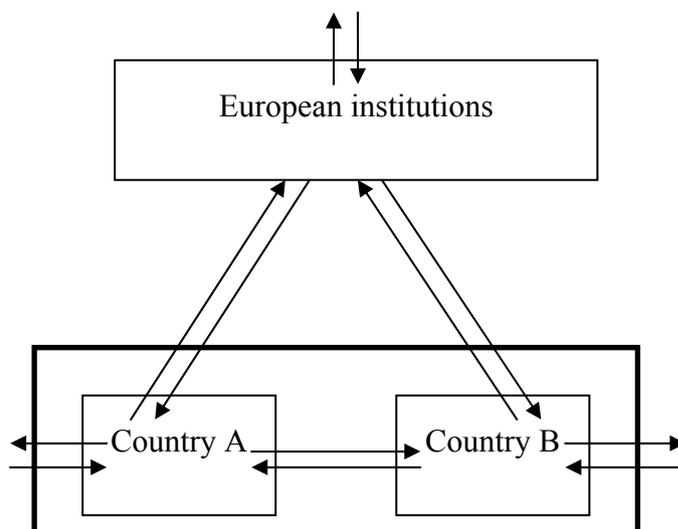
- (a) the economic territories of the Member States of the euro area; and
- (b) the economic territory of the European Central Bank.

## **FROM NATIONAL TO EUROPEAN ACCOUNTS**

19.05 European accounts are conceptually not equal to the sum of the national accounts of the Member States after conversion to a common currency. The accounts of resident European institutions need to be added. The scope of the concept of residence changes when one steps from the national accounts of Member States to European accounts. The ways in which the reinvested earnings of foreign direct investment enterprises or special purpose entities are treated are good examples in this context. In the national accounts of the Member States, a foreign direct investment enterprise may have investors which are residents of another Member State of the European Union/the euro area. The corresponding reinvested earnings are not recorded as such in European accounts. Besides, special purpose entities may need to be reclassified in the same institutional sector as their parent company when the latter is resident of another Member State. Finally, cross-border economic flows and financial stocks between European countries need to be reclassified. These differences are presented in diagrams 19.1 and 19.2 assuming, for the sake of simplicity, a European area composed of only two Member States: A and B. Flows and stocks involving residents and non-residents are schematically displayed with arrows.

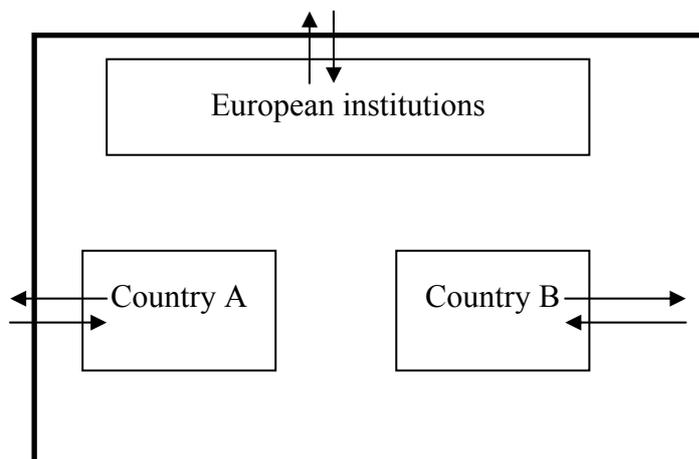
### Diagram 19.1 — Aggregation of the national accounts of the Member States

When the national accounts of countries A and B are aggregated, the aggregated rest of the world accounts record intra-flows between countries A and B, and with other countries and European institutions.



### Diagram 19.2 — European accounts

The European Union/euro area is considered as a single entity: the accounts of European institutions/the European Central Bank are included and only transactions of resident units with third countries are recorded in the rest of the world accounts.



## Conversion of data in different currencies

19.06 In European accounts, the economic flows and the stocks of assets and liabilities must be expressed in one single monetary standard. For this purpose, data recorded in the different national currencies are converted into euro by either:

(a) using market exchange rates (or an average thereof) prevailing during the time period for which the accounts are compiled;

or

(b) using fixed exchange rates, over the whole time period. The fixed rate can be the one prevailing at the end of the period, in the beginning, or as an average of exchange rates over the whole time period. The exchange rate used affects the (fixed) weight of a given Member State in European aggregates;

or

(c) calculating an index between consecutive periods as the weighted average of the growth indices of the data of each Member State expressed in national currency. Weights are constructed as the exchange-rate converted share of each Member State in the first period of comparison. After a reference period is chosen as a benchmark, the chain-linked index can be applied to this benchmark to generate levels for other periods of observation.

With method (a), the weights of Member States in European aggregates are updated according to the parities of their respective currencies. European aggregates' levels are therefore up-to-date, at any moment in time, but their movements may be affected by exchange rate fluctuations. In the case of ratios, the impact of exchange rate fluctuations on the numerator and denominator may cancel out to a large extent.

With method (b), the weights of Member States are not updated, which preserves the movements of European aggregates from exchange rate fluctuations. However, European aggregates' levels may be influenced by the choice of the (fixed) exchange rates that reflect the parities of Member States' currencies at a given moment in time.

Method (c) preserves the movements of European aggregates from exchange rate fluctuations whereas European aggregates' levels broadly reflect the parities in force for each time period. This is at the expense of additivity and other accounting constraints. If these are required, they must be restored as a last step.

- 19.07 European accounts can also be calculated by converting data recorded in the different national currencies into purchasing power standards (PPS). Method (a), (b) or (c) set out in paragraph 19.06 can be used for this purpose replacing exchange rates by corresponding purchasing power parities (PPPs).

## European institutions

19.08 In the ESA, European institutions comprise the following entities:

- (a) European non-financial institutions: the European Parliament, the European Council, the Council, the European Commission, the Court of Justice of the European Union and the European Court of Auditors;
- (b) European non-financial bodies, including the entities covered by the general budget of the European Union (e.g. the Social and Economic Committee, the Committee of the Regions, European agencies etc.) and the European Development Fund; and
- (c) European financial institutions and bodies including notably: the European Central Bank, the European Investment Bank and the European Investment Fund.

Note that in category (b) European agencies do not include agricultural market regulatory agencies whose main activity consists in buying and selling agricultural products to stabilize prices. The latter agencies are considered resident in the Member State in which they carry out their activities.

- 19.09 European non-financial institutions and bodies covered by the general budget of the European Union form one institutional unit which principally provides non-market government services for the benefit of the European Union. It is thus classified in the 'European institutions and bodies' subsector (S.1315)<sup>1</sup> of the 'general government' sector (S.13).
- 19.10 As long as its budget is not adopted as a part of the general budget of the European Union, the European Development Fund forms a separate institutional unit classified in the 'European institutions and bodies' subsector (S.1315) of the 'general government' sector (S.13).
- 19.11 The European Central Bank is an institutional unit classified in the '-central bank' subsector (S.121) of the 'financial corporations' sector (S.12).
- 19.12 The European Investment Bank and the European Investment Fund are separate institutional units classified in the 'other financial intermediaries, except insurance corporations and pension funds' subsector (S.125) of the 'financial corporations' sector (S.12).
- 19.13 The economic territory of the European institutions includes the territorial enclaves that are located in the Member States of the European Union or in non-EU countries, such as representations, delegations, offices, etc.

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<sup>1</sup> This code is specific to European Accounts. It is not mentioned in Chapter 23, 'Classifications', as Chapter 23 presents the codes to be used in the national accounts of the Member States whereas European institutions are recorded in the rest of the world sector.

19.14 The main transactions of European institutions are recorded in resources and uses as described in the Annex.

### **The rest of the world account**

19.15 In European accounts, the rest of the world accounts record the economic flows and the financial stocks of assets and liabilities between the resident units of the European Union/the euro area and non-resident units. Hence, European rest of the world accounts exclude transactions taking place within the European Union/the euro area. The flows taking place within the EU/euro area are called 'intra-flows' and the financial positions between residents of the EU/euro area are called 'intra-stocks'.

19.16 Imports and exports of goods include quasi-transit trade, that is:

- (1) goods imported from third countries into a Member State of the European Union/euro area by an entity which is not considered to be an institutional unit and then dispatched to another Member State of the European Union/euro area; and
- (2) goods arriving from a Member State of the European Union/euro area which are then exported to third countries by an entity which is not considered to be an institutional unit.

Exports of goods shall be valued FOB at the border of the European Union/the euro area.

For goods in quasi-transit to be exported, transportation and distribution costs within the European Union/the euro area shall be considered as output of transportation services if the carrier is resident in the European Union/the euro area and as imports of transportation services if it is not.

- 19.17 In European accounts, merchanting includes only the purchase of goods by a resident of the European Union/the euro area from a non-resident with the subsequent resale of the same goods to a non-resident without the goods being present in the European Union/the euro area. It is recorded first as a negative export of goods and then as a positive export of goods, with any timing differences between the purchase and sale being recorded as changes in inventories (see paragraphs 18.41 and 18.60).

Where a merchant who is a resident of the European Union/euro area buys goods from a non-resident and then sells them to a resident of another Member State, the purchase is recorded as negative exports in the national accounts of the Member State of the merchant but as imports in European accounts.

19.18 A foreign direct investment enterprise is a resident of the European Union/the euro area where an investor which is not a resident owns 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

In the national accounts of the Member States, a foreign direct investment enterprise may have investors who are resident in another Member State of the European Union/the euro area. The corresponding reinvested earnings are not recorded as such in European accounts.

### **Balancing of transactions**

19.19 One method to compile the European rest of the world accounts consists of withdrawing intra-European flows, on both the resources and uses sides, from the rest of the world accounts of the Member States. Although these mirror flows should balance in theory, they generally do not do so in practice because of the asymmetrical recording of the same transaction in the national accounts of the counterparties.

- 19.20 Asymmetries create a mismatch, in European accounts, between the total economy and rest of the world accounts. The compilation of European accounts therefore requires reconciliation of the accounts. This is achieved by reconciliation methods such as minimum least squares or proportional allocation. In the case of goods, intra-Union trade statistics may be used to allocate asymmetries by expenditure category.
- 19.21 The removal of asymmetries and subsequent balancing of the accounts causes further differences between European aggregates and the sum of the national accounts of the Member States.

### **Price and volume measures**

- 19.22 European non-financial accounts at the prices of the previous year can be compiled, for transactions in goods and services, using a similar methodology as for European accounts at current prices. First, the accounts of the Member States and European institutions/the European Central Bank, compiled at the prices of the previous year, are aggregated. Second, cross-border transactions among Member States, valued at the prices of the previous year, are eliminated from the rest of the world accounts. Third, the resulting discrepancies between resources and uses are eliminated using the method chosen to balance European transactions at current prices.

19.23 European accounts at the prices of the previous year allow the calculation of volume indices between the current time period and the previous year. After a reference period is chosen as a benchmark, volume indices can be chain linked and then applied to the European accounts at current prices of the benchmark year. This generates European accounts in volume for any period of observation. The series obtained in this way are not additive. If additivity and other accounting constraints are required for measures in volume terms for specific purposes, these must be restored as a last step in order to obtain additive adjusted series.

### **Balance sheets**

19.24 In European accounts, financial balance sheets can be compiled using a similar treatment as for transactions:

- (a) the financial balance sheets of the Member States are complemented by stocks of assets held and liabilities assumed by European institutions which are resident of the European Union/euro area;
- (b) stocks of financial assets of a resident of the European Union/euro area held by another resident (intra-stocks) are withdrawn from the national rest of the world accounts; and
- (c) imbalances created by the mismatch between intra-stocks of financial assets and the corresponding liabilities are allocated to the different sectors through balancing.

19.25 In European accounts, non-financial balance sheets can be compiled as the sum of the non-financial balance sheets of the Member States of the European Union/euro area.

**'From whom-to-whom' matrices**

19.26 'From whom-to-whom' matrices detail the economic transactions (respectively holdings of financial assets) between institutional sectors. In the national accounts of the Member States, these matrices map in detail the transactions/financial assets between sectors of origin/creditor and destination/debtor, as well as between domestic sectors and the rest of the world.

19.27 In European accounts, 'from whom-to-whom' matrices can be compiled by aggregation of the national matrices and reclassification of intra-European flows and stocks as resident flows and stocks. For this purpose, a distinction is then to be made in these national matrices between transactions, and the holding of financial assets, vis-à-vis the resident units of the European Union/the euro area and the non-residents in the rest of the world account. Moreover, flows and stocks vis-à-vis the residents units of the European Union/the euro area need to be further distinguished by counterpart sectors.

## ANNEX 19.1 — THE ACCOUNTS OF EUROPEAN INSTITUTIONS

### Resources

19.A1.01 The main resources of European non-financial institutions and bodies include the following:

- (a) customs and agricultural duties;
- (b) production charges on producers of sugar, isoglucose and inulin syrup;
- (c) the value added tax resource; and
- (d) The gross national income (GNI) resource.

19.A1.02 In the accounts of European institutions, these flows are recorded as resources of the 'European institutions and bodies' subsector (S.1315) and as uses of the rest of the world (S.211).

19.A1.03 Customs and agricultural duties are levied at the external frontiers of the European Union under the common customs tariff. They are classified as 'taxes and duties on imports excluding VAT' (D.212) and include collection costs.

- 19.A1.04 Production charges are levied on the sugar, isoglucose and inulin syrup quotas held by the producers. They are classified as 'taxes on products, except VAT and import taxes' (D.214) and include collection costs.
- 19.A1.05 A fixed share of the amounts collected under points (a) and (b) of paragraph 19.A1.01 is retained by Member States as collection costs. This share was 25 % in 2009. In the accounts of European institutions, these collection costs are recorded, on the uses side, as 'intermediate consumption' (P.2) of the 'European institutions and bodies' subsector (S.1315). On the resources side, they are recorded as 'imports of services' (P.72) in the rest of the world accounts (S.211).
- 19.A1.06 The value added tax resource is calculated by applying a fixed percentage rate, known as the VAT rate of call, to the harmonised VAT assessment base of each Member State. The VAT base is capped in relation to gross national income. The capping of the VAT base means that, if the VAT base of a Member State exceeds a given percentage of this Member State's GNI assessment base, then the VAT rate of call is not applied to the VAT base but to the latter percentage of the GNI assessment base. The value added tax resource includes payments for the current year as well as balances from previous years, corresponding to revisions of past VAT bases, when they are due to be paid. The value added tax resource is classified as 'VAT- and GNI-based EU own resources' (D.76).

- 19.A1.07 The gross national income resource is a residual contribution to the budget of the European institutions which is assessed on the levels of gross national income of each Member State. It is classified as 'VAT- and GNI-based EU own resources' (D.76) and includes reimbursements as well as the balancing payments for previous years. The correction of budgetary imbalances paid by the other Member States to the countries concerned is also recorded under D.76, as resources and uses of the rest of the world (S.211).
- 19.A1.08 The contributions of Member States to the European Development Fund are classified as 'current international cooperation' (D.74).
- 19.A1.09 The Member States subscriptions to the paid-in capital of the European Investment Bank, the European Investment Fund and the European Central Bank are recorded in the financial accounts as 'other equity' (F.519). They are recorded as changes in assets of the rest of the world (S.211) and changes in liabilities of the 'other financial intermediaries, except insurance corporations and pension funds' (S.125)/'central bank' (S.121) subsectors.

19.A1.10 Interests payable on loans granted by the European Investment Bank, after deduction of financial intermediation services indirectly measured (FISIM), are classified as 'interest' (D.41). In the accounts of European institutions, they are recorded as uses of the rest of the world (S.2) and resources of the 'other financial intermediaries, except insurance corporations and pension funds' (S.125).

19.A1.11 Interests payable on loans granted by the European Central Bank are classified as 'interest' (D.41). In the accounts of European institutions, they are recorded as uses of the rest of the world (S.2111) and resources of the 'central bank' (S.121) subsector.

### **Uses**

19.A1.12 Payments made by European non-financial institutions and bodies consist of the following:

- (a) transactions related to their activities as non-market producers, mainly: 'intermediate consumption' (P.2), 'gross fixed capital formation' (P.51) and 'compensation of employees' (D.1);

- (b) distributive transactions related to the transfers from European institutions to Member States. They take mainly the form of 'subsidies on products' (D.31), 'other subsidies on production' (D.39), 'current international cooperation' (D.74), 'other miscellaneous current transfers' (D.759), 'investment grants' (D.92) and 'other capital transfers' (D.99); and
- (c) payments of the European Development Fund to third countries which are classified as 'current international cooperation' (D.74).

19.A1.13 The accounts of European institutions record the payments made by European non-financial institutions and bodies as uses of the 'European institutions and bodies' subsector (S.1315) and resources of the rest of the world (S.211 or S.22).

19.A1.14 Payments made by European non-financial institutions and bodies are generally recorded on the basis of the expenditure statements provided by the Member States. Advance and ex-post payments are recorded in the financial accounts of the European institutions as 'other accounts receivable/payable, excluding trade credits and advances' (F.89).

19.A1.15 Payments made by European financial institutions and bodies consist of the following:

- (a) transactions related to their activities as market producers of financial services, mainly: 'intermediate consumption' (P.2), 'gross fixed capital formation' (P.51) and 'compensation of employees' (D.1);

(b) interest payments (D.41).

As the subscriptions of Member States to the capital of the European Investment Bank are not considered as foreign direct investment, there is no imputed flow of reinvested earnings (D.43) to be recorded in its accounts.

19.A1.16 The accounts of European institutions record the payments made by European financial institutions and bodies as uses of the 'other financial intermediaries, except insurance corporations and pension funds' (S.125) subsector and resources of the rest of the world (S.211 or S.22).

### **Consolidation**

19.A1.17 In European accounts, flows between Member States and European institutions are normally not consolidated, among resources and uses, within the 'general government' sector (S.13). However, in the case of 'current international cooperation' (D.74), the payments of Member States to the European institutions to finance, e.g. the European Development Fund, are consolidated and recorded, in European accounts, as uses of national 'central government (excluding social security)' (S.1311) and resources of the rest of the world (S.22).

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