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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of Regulation (EC) No 1161/2005 of the European Parliament and of the Council of 6 July 2005 on the compilation of quarterly non-financial accounts by institutional sector

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1. INTRODUCTION

Regulation (EC) No 1161/2005 of the European Parliament and of the Council (hereafter referred to as "the QSA Regulation") has set the legal framework for compiling quarterly non-financial accounts by institutional sector ("QSA").

The compilation of QSA for the euro area had been identified as a priority in the Action Plan on Economic and Monetary Union (EMU) Statistical Requirements endorsed by the ECOFIN Council in September 2000. The QSA of the euro area were deemed urgently needed and should be made available within 90 days of the end of the quarter concerned.

Indeed, as stated in the third recital of the QSA Regulation, the analysis of cyclical movements in the European Union economy and the conduct of monetary policy within the EMU require macroeconomic statistics on the economic behaviour and the interrelationship of individual institutional sectors which are impossible to identify in data compiled at the level of the economy as a whole.

This report covers the implementation of the QSA Regulation, as required by its Article 9:

"*Within five years of the entry into force of this Regulation, the Commission shall submit a report to the European Parliament and the Council on its implementation. In particular, this report shall:*

(a) provide information on the quality of the statistics produced;

(b) assess the benefits accruing to the Community, the Member States and the providers and users of statistical information of the statistics produced in relation to their costs;

(c) identify areas for potential improvement and amendments considered necessary in light of the results obtained."

The report provides information on these items according to the following structure: Section 2; how Member States met their legal obligations; Section 3; the quality of the national and European statistics produced and; Section 4; the current benefits for users compared to collection/compilation costs together with plans for future enhancement.

2. COMPLIANCE WITH REPORTING OBLIGATIONS

2.1 The reporting obligations

The QSA regulation provides for the transmission of a limited set of transactions that still cover the full sequence of non-financial accounts. For countries whose GDP is above 1% of the European total, the sector breakdown required is the following: Non-financial corporations (S11) / Financial corporations (S12) / Government (S13) / Households together with non-profit institutions serving households (S1M) / Rest of the World (S2). The reporting obligations of the below-threshold countries are limited to the government and the Rest of the World sectors.

QSA data had to be transmitted at the latest 95 days after the reference quarter, until August 2008, and up to 90 days afterwards. Transmissions should include back data starting from the first quarter of 1999.

Whereas temporary derogations were granted to some Member States at the time the QSA regulation was adopted and by subsequent EU enlargements, all of them have now expired and the QSA regulation applies to all EU Member States and, under the EEA agreement, to Norway and Iceland.

2.2 Compliance with reporting obligations

Countries with full reporting obligations

To assess whether a country shall transmit a complete set of QSA data, the Commission determines its GDP, as a percentage of the European GDP, on the basis of the arithmetic mean of the latest three years' annual data (c.f. article 3.2 of the QSA Regulation).

In December 2009, the 17 countries with full reporting obligations were the following: Belgium (BE), the Czech Republic (CZ), Denmark (DK), Germany (DE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (IT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Finland (FI), Sweden (SE), the United Kingdom (UK) and Norway (NO).

For the last delivery of 2009 (data up to 2009Q3), Member States broadly met the deadline of t+90 days (29 December).

Most countries delivered the full datasets whereas NO, SE and PL delivered partial datasets with NO transmitting only data for the households sector. However, the situation has improved in the latest transmissions and Norway has announced it will transmit QSA data for all sectors before September 2010.

Back series were missing for EL and ES (1999 data) and IE (1999-2001). This was generally due to missing Annual Sector Accounts that are being compiled and should be transmitted to Eurostat, together with the quarterly accounts, by September 2010.

Countries with partial reporting obligations

In December 2009, the 12 countries with partial reporting obligations were the following: Bulgaria (BG), Estonia (EE), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), Romania (RO), Slovenia (SI), Slovakia (SK) and Iceland (IC).

Among Member States with limited reporting obligations, only LU has not transmitted any data but has committed to do so by December 2010. RO transmitted full QSA on a voluntary basis, thus preparing for crossing the 1% threshold and becoming a full QSA reporter.

Timeliness requirements were broadly met whereas some countries failed delivering a limited number of transactions.

2.3 Consistency with related datasets

Consistency between different domains of macroeconomic statistics is required by the QSA Regulation. As stated in the fourth recital of the QSA Regulation: "Production of these accounts is part of the overall aim to compile a system of annual and quarterly accounts for the European Union and for the euro area. The system includes the main macroeconomic aggregates and the financial and non-financial accounts by institutional sector. The aim is to achieve consistency across all these accounts and, with regard to the rest of the world accounts, between the balance of payments and the national accounts data."

Furthermore, Article 5 of the QSA regulation requires that data transmitted by the Member States for the purposes of this regulation are consistent with the quarterly non-financial accounts of the general government, quarterly main aggregates of the total economy and corresponding annual data transmitted to the Commission under the data transmission programme of the ESA regulation[1].

Inconsistencies are generally minor except with BoP data where they may be sizeable (see §3.5 for details). In few cases, discrepancies with Quarterly Main Aggregates (QNA) and Annual Sector Accounts (ASA) have been noticed in the past but they have decreased to "minor" levels in latest transmissions. Further improvements are expected with the revision of the ESA transmission programme that should harmonize the release and revision calendars across National Accounts tables and possibly BoP data.

3. QUALITY OF THE STATISTICS PRODUCED

One first way of assessing the quality of the statistics produced consists in documenting the sources and methods used by the Member States and European institutions to compile the national and European accounts. This inventory has been completed in March 2010 and shared among compilers with a view to exchange and foster best practices. It should be released on Eurostat's website (http://ec.europa.eu/eurostat/sectoraccounts) by the end of 2010.

The quality of the statistics produced has been assessed on the basis of the following criteria, as set-up in Regulation 223/2009 of 11 March 2009 on European statistics[2]: relevance, accuracy, timeliness and punctuality, accessibility and clarity, coherence and comparability.

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1 Regulation (EC) N° 2223/96

2 Published in OJ L87 of 31.3.2009

3.1 Relevance

Relevance is a quality aspect that characterises how well a statistical product meets users' needs. It implies the identification of users and knowledge of their needs and expectations. The third recital of the QSA Regulation specifies the main objectives of QSA production as follows:

"The analysis of cyclical movements in the European Union economy and the conduct of monetary policy within the EMU require macroeconomic statistics on the economic behaviour and the interrelationship of individual institutional sectors which are impossible to identify in data compiled at the level of the economy as a whole. There is, therefore, a need to produce quarterly accounts by institutional sector, for the European Union as a whole and for the euro area."

Thus, QSA data are of main interest, first of all, for institutional users as the ECB and DG ECFIN of the Commission, as well as for economic governance purposes.

European accounts

Eurostat and the ECB publish a full set of quarterly sector accounts for the euro area that includes non-financial accounts, as well as financial accounts and balance sheets. Eurostat also publishes quarterly non-financial sector accounts for the European Union.

Eurostat issues a quarterly news release with a focus on a set of seasonally adjusted key indicators, for the euro area and the EU. These non-financial indicators, which are meant to illustrate the behaviour of non-financial corporations and households, are the following:

– *Profit share of non-financial corporations* defined as gross operating surplus divided by gross value added. This profitability-type indicator shows the share of the value added created during the production process remunerating capital.

– *Gross investment rate of non-financial corporations* defined as gross fixed capital formation divided by gross value added. This ratio relates the investment of non-financial businesses in fixed assets (buildings, machinery, software, major improvements to fixed assets etc.) to the value added created during the production process.

– *Gross household saving rate* calculated as gross saving divided by gross disposable income[3].

– *Gross household investment rate* calculated by dividing gross fixed capital formation of households by gross disposable income[4].

The ECB publishes a press release that covers both the quarterly financial and non-financial sector accounts of the euro area. ECB's press release analyses the annual percentage changes

[3] After adjustment for the change in the net equity of households in pension funds reserves.
[4] Idem.

of main transactions that underpin the decisions of the various sectors in the economy. In addition, it produces regularly more detailed briefing material for its Executive Board and Governing Council. This material is the basis for a comprehensive analysis of quarterly developments in the euro area which is published in the Monthly Bulletin of the ECB.

Country breakdown

The feedback from non-institutional users (bank analysts, consultants, journalists, etc.) confirms their great interest in short-term data by institutional sector. However, in addition to European aggregates, users require more information on individual countries.

The number of countries releasing QSA data beyond the government and rest of the world sectors has increased over the latest years. In 2010, eight out of seventeen countries with full reporting obligations publish QSA data; either seasonally adjusted (FR, UK) or not (CZ, DK, ES, NL, PT and SE). Four additional countries (AT, DE, IT and NO) disclose selected indicators on households and, in the case of IT, non-financial corporations. Among the five remaining countries, one (BE) is considering the possible publication of these data in the near future.

The countries concerned generally release QSA data at t+90 days or shortly afterwards (maximum t+93 days for CZ, t+97 days for NL, by t+98 days for IT and between 90 and 100 days for ES).

At European level, Eurostat has started disseminating country data for each of the above mentioned key indicators and their underlying components. As most Member States do not yet compile seasonally adjusted QSA, these indicators are published as four quarter cumulated sums.

3.2 Accuracy

As mentioned in Regulation 223/2009 on European statistics, the latter must accurately and reliably portray reality. The accuracy and reliability of statistics depend on many variables. One important factor in this respect is the extent to which direct data sources are used compared to indirect methods based on past trends and model assumptions. National QSA production relies to a large extent on three statistical input sources, namely the quarterly main aggregates for the total economy, the quarterly general government accounts and the quarterly balance of payments. These are supplemented with administrative data sources (e.g. tax records, other information from industry supervisory authorities), which normally contain direct data that could be used as indicators of the short-term developments of particular sector/transactions.

Fairly good infra-annual statistical information exists with respect to the activities of financial corporations (profit and loss accounts, detailed balance sheets information with breakdown by counterparts, interest rates statistics, quarterly financial accounts), which is used by many countries in the QSA compilation process. These sources primarily cover monetary financial institutions, investment funds and, to a lesser extent, insurance corporations and pension funds. In many cases, data of official supervisory agencies, industry business associations and stock exchanges are also used.

However, only a few countries (e.g. CZ and UK, NL for the non-financial corporations sector) reporting full QSA data use direct source data to support the compilation of individual estimates for the household and non-financial corporations sectors, for the production and generation of income accounts in particular.

The majority of the other countries make extensive use of indirect methods employing annual data as the benchmark and quarterly indicators to capture short term movements including the seasonal component. In these cases, the quality of QSA depends directly on the accuracy of ASA. Although annual accounts are based on a broader range of sources, income flows between corporations and households are not always well captured, leading to e.g. implausible household saving rates or business profit shares. The annual key indicators published by Eurostat have proven to be an efficient tool to detect such implausible levels / movements which are then investigated with the country concerned (See §3.5 below – "comparability"). Finally, in some cases, countries use pure model based estimates which are not supported by direct or indirect quarterly information. However, these (model based) methods are generally restricted to transactions that play a minor role in the accounts.

3.3 Timeliness and punctuality

European statistics must be disseminated in a timely manner, in particular when they are used for economic policy purposes. This is the case for European QSA that include relevant information for the conduct of the monetary policy within the euro area and for the coordination of budgetary policies within the EU. Since mid-2007, European QSA have been punctually published, within 120 days after the reference quarter.

The periodicity of European statistics should take into account user requirements as much as possible. There is a strong demand from the institutional users to speed up the compilation and dissemination of QSA data to enable its usage as a timely input for the decision-making. The current dissemination date of t+120 days still falls short of the t+90 days target set by the ECOFIN Council in September 2000. In particular, this better timeliness is necessary to meet the needs of the Governing Council of the ECB that decides on the monetary policy of the euro area. However, better timeliness for euro area accounts depends in the first instance on the earlier availability of input data such as quarterly government statistics, Balance of Payments and quarterly financial accounts (MUFA).

As an intermediate step, the validation and compilation has been reduced to 10 (calendar) days after the transmission of national QSA, which allows the internal availability of preliminary estimates for the euro area and EU non-financial accounts within 100 days after the reference quarter.

3.4 Accessibility and clarity

European statistics must be disseminated in a convenient manner and presented in a clear and understandable form. It should be available and accessible on impartial basis with supporting metadata and guidance.

- *Euro area/European aggregates*

Eurostat's release covers full QSA data series starting from 1999Q1 (non-seasonally adjusted) for the euro area and the EU as well as key indicators focusing on the behaviour of the non-financial corporations and household sectors (both raw and seasonally adjusted) as described in section 3.1 above.

Data are disseminated via different channels: press release, statistical database and Eurostat website section dedicated to sector accounts[5]. That dedicated section presents integrated quarterly non-financial and financial sector accounts for the euro area and non-financial QSA for EU in a form of sequence of accounts as defined in ESA95. This format helps users to understand and analyse the relationships between different sectors and transactions.

Data are accompanied with methodological information on European QSA compilation and the ESA95 sequence of accounts. Moreover, the collection of QSA news releases issued by Eurostat is provided together with an Excel file that includes the underlying data. Finally, a set of about 30 analytical charts and tables is updated every quarter so that users can easily relate changes in total economy with developments in each institutional sector.

In addition, the ECB releases a detailed press release on the integrated euro area accounts (EAA), it makes all the EAA data available via its Statistical Data Warehouse (SDW)[6] and publishes main indicators in its Monthly Bulletin and Statistical Pocket Book. Methodological information is also available on its website.

- *Country breakdown*

Annual sector accounts are published by Eurostat for each country, next to and in the same ESA95 format as the QSA of the euro area and of the EU. In addition, the quarterly key indicators listed in section 3.1 have been published, in whole or in part, for all Member States that report full QSA except BE, EL, IE, and FI whose inclusion is planned in the near future.

3.5 Coherence and comparability

Coherence

Consistency between related statistical domains is defined as one of the essential quality aspects of statistical output (see section 2.3 of the document). In the case of QSA, this

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5 See at: http://ec.europa.eu/eurostat/sectoraccounts

concerns annual sector accounts (ASA), main aggregates (QNA), quarterly non-financial accounts of government (STPFS), quarterly financial accounts (MUFA) and BoP statistics.

QSA have generally achieved a good level of consistency with other related statistics, in particular STPFS (except for UK) and QNA.

Concerning QSA/BoP consistency, some countries still have sizeable discrepancies due to different concepts used in both fields. For example, in National Accounts several Member States use the national concept for trade in goods, excluding in particular quasi-transit trade, whereas they resort to the EU concept for BoP.

Other QSA/BOP discrepancies stem from differences in the respective manuals Fifth edition of the Balance of Payments manual – BPM5 and European System of Accounts - ESA95 respectively). These concern adjustment for Financial Intermediation Services Indirectly Measured (FISIM) with respect to imports, exports and interest flows in National Accounts, and the different treatment of construction and government services and income from mutual funds. These conceptual differences are expected to vanish when the new versions of the Manuals (BPM6 and ESA2008) are released.

The outstanding reasons for inconsistencies are the following:

– different data requirements;

– different timeliness and/or revision policies of related statistics (so called vintage differences);

– institutional arrangements (different data sources used by different compiling units; particularly relevant for BoP and financial accounts);

– asymmetrical recording of cross-border flows.

Inconsistencies due to different data requirements may be caused by different treatments of the statistical discrepancy between the output and expenditure approaches of Gross Domestic Product. Unlike QNA transmissions where the statistical discrepancy can be separately reported, QSA are reported balanced across uses and resources. Therefore, the discrepancy on the output side is typically allocated to gross value added (B.1G), whereas the discrepancy on the expenditure side typically falls on changes in inventories/valuables (P.5N).

Vintage differences may occur occasionally at some periods in the year due to different annual data revision policies. In particular, ANA are generally updated on the basis of QNA and become available at t+3 months, while ASA are revised between t+6 and t+9 months. QSA, which are generally benchmarked on ASA, may then diverge from QNA in the meantime. Moreover, the annual public finance statistics (APFS) must be consistent with EDP notifications made at t+3 and t+9 months. If ASA data are not compiled / revised at these

[6] See at: http://sdw.ecb.europa.eu

precise moments in time, this may create discrepancies between the QSA that are benchmarked on ASA and the STPFS/APFS data, in March and September especially.

Vintage differences may also recur every quarter because of different timeliness requirements and/or revision policies across statistical domains. For example, QNA are available at t+70 days whereas STPFS and QSA are transmitted at t+90, making use of the additional information available between t+70 and t+90 days. As higher priority is attributed to QSA alignment with STPFS, this triggers vintage differences with QNA indicators produced earlier.

Furthermore, different institutional arrangements across countries often results in differentiating data sources and methodological approaches, as well as in differentiating revision policies across statistical domains. This concerns, first of all, discrepancies with BoP and MUFA data (apart from conceptual and vintage differences discussed above). In most countries, non-financial accounts including RoW are estimated by National Statistical Institutes (NSI), whereas National Central Banks (NCB's) are typically responsible for BoP and financial accounts. Reconciliation of data sources used by the different institutions, mutual agreements on the level of detail required in the input data, regular communication on methodological issues between NSI and NCB are of utmost importance from the point of view of statistical coherence.

At European level, discrepancies do not only stem from the national inputs but also from the asymmetrical recording of cross-border flows between Member States. Theoretically, intra-flows should be equal on the uses and resources sides (e.g. goods exported by all Member States within the Community should be equal to total imports). However, this is not the case in practice due to the so-called "asymmetries". Adjustment of these asymmetries requires balancing European accounts which eventually leads to some differences with other national accounts publications, in which cross border flows within the area concerned have not yet been removed.

Comparability

Comparability can be analysed from both the conceptual and the empirical perspectives.

As stated in Article 4 of the QSA regulation, comparability is ensured on the conceptual side by using common standards, definitions, classifications and accounting rules as laid down in the ESA Regulation.

The ESA Regulation defines in particular institutional units, sectors and the content of each individual transaction that belongs to the sequence of accounts. To foster the proper application of these standards, the QSA (and ASA) questionnaires have been designed in such a way that they only allow the transmission of the relevant sectors/transactions combinations. Moreover, ESA codes and accounting rules are systematically checked by Eurostat upon receipt of QSA transmissions.

On the empirical side, comparability over time is verified by monitoring revisions over consecutive transmissions and inquiring of Member States about any sudden leap in key variables.

The ESA Regulation also sets rules on the time of recording of transactions. These rules, that implement the accrual recording concept, are particularly important in the QSA context where all related transactions must be recorded simultaneously for all the counterparties. To check comparability over time and the uniform application of time of recording rules across countries, a list of economically meaningful charts is updated every quarter and submitted to QSA compilers for peer review. This allows the detection of implausible quarterly patterns that may point to an inconsistent recording of related flows.

Comparability over space is monitored by making cross-country comparisons of ASA key indicators such as the household saving rate in relation to household disposable income.

4. BENEFITS AND POTENTIAL IMPROVEMENTS

4.1. Benefits in relation to their costs

Costs

The compilation of QSA data mainly builds upon pre-existing Annual Sector Accounts and quarterly data for the government and rest of the world sectors (BoP).

These data are generally completed by the use of existing surveys or administrative data. In a few cases, additional surveys have been introduced to fulfil the requirements of the QSA.

This is the case for NL that surveys the 300 biggest firms of the non-financial corporations sector, covering about 50 % of the balance sheet total, and a significant proportion of units belonging to the financial corporations sector[7]. PT and FI have also introduced additional surveys with respect to the non-financial corporations sector.

The UK case is very specific as this country compiles quarterly sector accounts which are then used to derive annual sector accounts. QSA are based on a number of quarterly surveys in particular, for households: the "wages and salaries" survey; for non-financial corporations: "the quarterly profits survey" and for financial corporations: a number of surveys run by Bank of England and, with respect to pension funds, insurance companies and trusts, by the Office for National Statistics (ONS).

[7] Surveyed units cover 90% of the balance sheets totals for Monetary and Financial Institutions (35% of total S12); 100% for investment funds (1% of S12) and 85% for Insurance Corporations and Pension Funds (15% of S12).

The compilation of QSA data for the households and corporations sectors also required additional staff. The additional workload[8] has been estimated in Full Time Equivalents as follows: Eurostat (5), ECB (2.5), BE (0.6), CZ (1.5), DK (1), DE (1.5), IE (2), EL (0.3), ES (2), FR (1), IT (1.5), NL (3), AT (2), PL (1.5), PT (2), RO(2), FI (1), SE (2), NO (1).

Benefits

The QSA regulation has fostered the compilation, in Member States, of quarterly series for the income side of the National Accounts. These data complete the quarterly series for output and expenditure that were already collected through the ESA transmission programme. At European level, the compilation of QSA data has triggered methodological developments whilst leading to a wide range of new statistical products.

On the methodological side, it was necessary to revisit the compilation of European aggregates so that they describe the euro area (EA) / EU as a whole. First, the QSA of the Member States have been completed by the accounts of EU institutions and the ECB. Second, the rest of the world account has been estimated on the basis of Extra-EA / EU BoP data as it should record flows vis-à-vis third countries only. Third, the accounts have been re-balanced so that domestic sectors match the re-estimated rest of the world account.

The publication of a full set of integrated (non-financial and financial) institutional sector accounts for the euro area and non-financial sector accounts for the EU has been considered a major success by compilers and institutional users[9]. As set in the project's specifications, quarterly non-financial sector accounts now allow the analysis of the behaviour of economic agents and their interactions in the real economy. Combined with the quarterly financial accounts, a fuller picture emerges.

4.2. Potential improvements

Although the core needs expressed in the Action Plan on Economic and Monetary Union (EMU) Statistical Requirements endorsed by the ECOFIN Council in September 2000 have been met by QSA, some improvements can be proposed to extend their use further.

Timeliness

As a first priority, the Member States and Eurostat / ECB seek to improve the timeliness of euro area / EU accounts. However, as referred to in section 3.3 above, better timeliness for euro area accounts depends on the earlier availability of input data.

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8 As UK compiles the Annual Sector Accounts (ASA) as the sum of QSAs, the QSA-specific workload cannot be estimated.

9 See minutes of the 34th meeting of the CMFB, §6.1.4 at: http://www.cmfb.org/reports/meetings.htm and the archives of the press conference held on 1 June 2007 at: http://epp.eurostat.ec.europa.eu/portal/page/portal/sector_accounts/introduction.

Under the ongoing revision of the revised ESA transmission programme, it is thus foreseen to shorten the deadlines for QSA transmissions to allow the compilation/publication of euro area/EU accounts by t+90 days instead of t+120 days.

Reliability

Another source of possible improvement lies with better quarterly sources for the households and non-financial corporations sectors. In some cases, countries use pure model based estimates which are not supported by direct or indirect quarterly information. It is important that the latter (model based) method is used only for transactions that play a minor role in the accounts.

On the other hand, some countries have already started collecting direct data, e.g. from company accounts. Ideally, statistics would be generated as a by-product of the regular accounting of enterprises, at least for listed companies and administrative data / payrolls for households.

Eurostat will continue monitoring and improving the quality of quarterly sector accounts through systematic data checks including cross-country comparisons. It will also foster the spreading of best compilation practices under the auspices of the CMFB task force on quarterly accounts by institutional sectors.

Coverage

As outlined in section 2.1 of the document, QSA data users regularly express their interest in national QSA data availability. Consequently, publication of a harmonised set of national data, including seasonally adjusted figures, is one of the QSA development priorities for the near future.

In the same vein, it would be extremely useful to extend the set of key indicators calculated in real terms. Such volume data on household and business investment would complete current publications on real household income and consumption. A country breakdown should be possibly released at the same time as the corresponding European indicators.

The provision of seasonally adjusted data in real terms, for a limited set of indicators, is under discussion in the context of the revision of the ESA transmission programme.