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The national accounts switch to 2014 base

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The national accounts switch to 2014 base

Every year in May, the previous three years of the annual national accounts are updated to take account of any new information that has become available since the previous year. This year the series have been revised in their entirety (1949-2017) with the publication of the 2014 base. The most significant changes concern the national economy's transactions with the rest of the world, as well as the estimations of flows of property income between resident agents (enterprises, households, general government, etc.) as well as between resident agents and the rest of the world.

1. Purpose of base changes

The purpose of national accounting is to give the most accurate picture possible of the functioning of the economy. Regular changes of base are carried out to take account of developments in the functioning of the economy, and the statistical sources (surveys or administrative data in particular) that can help to describe it. The national accounts series are then revised in their entirety.

The previous two base changes provided an opportunity to adapt the conceptual framework of the national accounts and the classifications used to present the results so that they were consistent with changes in the economy.

The 2005 base (published in May 2011) introduced a new version of the classification of economic activities and products (NACE Rev. 2) allowing a more detailed description of service activities, whilst the 2010 base (published in May 2014) implemented a new version of the European System of Accounts (ESA 2010), in particular extending expenditure recognised as investments to include spending on R&D and weapons systems. These two base changes were coordinated at European level, as both NACE Rev. 2 and ESA 2010 have an international scope.

The switch to the 2014 base is specific to France and is the fruit of a process coordinated with the Banque de France. The main priority is to recast the estimation of certain items in the national accounts whilst taking account of changes in the statistical sources available to the national accountants.

2. Harmonising the estimates of the national accounts with those of the balance of payments

In national accounting, the "rest of the world account" records all the transactions between resident agents (enterprises, households, general government, etc.) and non-resident entities, whether this concerns flows of exports and imports of goods and services on the one hand, or flows of property income or of transfers (taxes, subsidies, social contributions and benefits, etc.) on the other hand. The "rest of the world account" estimates mainly use data from Customs and the Balance of Payments (BoP) produced by the Banque de France.

Over a period of several years, the Banque de France has substantially modernised its system for collecting statistics, including for the estimation of a part of exports and imports of services where there has been a switch from information provided by the banking system to a statistical survey of companies that export or import services (complementary survey on international trade in services (ECEIS)). Improvements have also been made to estimates of other types of transactions, such as property income. In addition, in April 2018 the BoP published changes to its "Travel" item, which records the expenditure of residents abroad and that of non-residents in France in the BoP: the tourism balance has thus been revised sharply upwards thanks to a clearer picture of the dynamics of non-resident tourists' expenditure, particularly from emerging countries.

These improvements have led to substantial revisions in the flows recorded in the balance of payments. INSEE was not immediately able to take these revisions into account, as corrections in level limited to recent years only would have affected the temporal consistency of the series. This has resulted in growing gaps in the levels of transactions recorded in both the BoP and the national accounts. Thus, in the 2010 base, the balance of current transactions in the national economy with countries abroad (B.12) for 2016 (provisional accounts) stood at -€57.8bn while the balance of current transactions estimated by the BdP for the same year was €19.0bn, or a gap of approximately 1.7 percentage points of GDP. And yet these two aggregates are conceptually equivalent.

The publication of the 2014 base has led to a significant harmonisation of the estimates of the national accounts and those of the balance of payments. **The estimates of the balance of current transactions in the national accounts and in the balance of payments are now very close**, even though there are still substantial differences in certain transactions. In the expenditure approach, the revisions made to exports and imports have mainly been offset by corresponding revisions of household final consumption (mainly the consumption of market education services, revised on the basis of sources published by the Directorate for the Coordination of Research, Studies and Statistics (DARES)).

For more detail on how the national accounts and the balance of payments have been harmonised, see the document "*Le déficit courant et le besoin de financement de la France en base 2014*" (France's current account deficit and net borrowing position in the 2014 base) (<https://www.insee.fr/fr/metadonnees/source/s1375>).

3. A complete overhaul of estimates of property income flows

The report on the cost of capital published in summer 2015 by the National Council for Statistical Information (CNIS) recommended, among other things, an in-depth review of the estimation of property income flows: interest, dividends, reinvested earnings on foreign direct investments (FDI) and other investment income.

This process, which required identifying all the statistical sources available and studying their reliability and consistency, has been conducted over the last two years and the outcome is materialised in the new estimates published in the 2014 base. The revised estimates of the BoP on flows with the rest of the world have of course been used (with a sharp downward revision of the net interest paid to the rest of the

world), but also sources that were previously little used by the national accountants, such as tax data relating to dividends received by resident households.

Dividends received by households have therefore been revised sharply downwards for the 2013 and 2014 base years (-€25bn). The time series of dividends received by households has also been substantially revised, with a fall between 2012 and 2013 that did not appear in the 2010 base. This leads to a revision of household gross disposable income that is considerably down on the base years. On the other hand, gross household savings have not been revised much, due to the parallel downward revision of household consumption expenditure (in particular on market education services).

Net income distributed by non-financial corporations (NFCs) has been revised substantially downwards, mirroring the revision made to dividends received by households. Added to this is a sharp downward revision of net interest paid by NFCs, mirroring the revision made to net interest received by the rest of the world. Gross savings of NFCs have been revised sharply upwards. The GFCF of NFCs remaining unchanged, their self-financing ratio is considerably higher than in the 2010 base.

For more details on the overhaul of the estimates of property income flows, see the document entitled "*Les estimations de flux de revenus de la propriété en base 2014*" (Estimates of income property flows in the 2014 base) (<https://www.insee.fr/fr/metadonnees/source/s1375>).

4. The revisions made to the general government account (APU)

Several projects of varying scale have induced revisions to the general government account.

Treatment of the contribution to public broadcasting service (CAP)

Until now the CAP (*Contribution à l'audiovisuel public*) was considered as a purchase of services by households from the public broadcasting companies and not as a compulsory levy, insofar as households can avoid paying the CAP by choosing not to possess a television set.

As the financing of the public audiovisual service is recorded in a wide variety of ways in different countries, Eurostat decided to try to harmonise it. In the French case, Eurostat asked that the CAP be considered as a compulsory levy insofar as the payment of the CAP is not directly linked to the consumption of services produced by the public broadcasting companies (it is possible to watch the programmes of the public broadcasting service via a device other than a television set, certain persons possess a television set but do not watch the programmes of the public broadcasting service, etc.).

In the 2014 base the CAP is therefore recorded as a compulsory levy. The consequence of this is to raise from 0.1 to 0.2 points the rate of compulsory levies depending on the years and to reduce household consumption expenditure on

market services. This is mirrored by an upward revision of general government consumption expenditure on non-market services.

Estimation of direct taxes owed but not collected

In national accounting, the total amount of direct taxes owed is recorded as current taxes on income (D.51). In practice, the taxes actually collected are typically lower because some taxpayers turn out to be insolvent. The difference must be recorded in the “taxes and social contributions assessed but unlikely to be collected” account (D.995).

In the 2010 base, the D.995 recorded for a year N was simply estimated as the difference between the D.51 owed for year N and the total taxes collected during year N (a portion of which actually consists of amounts collected for earlier years).

In order to comply with ESA 2010, the D.995 now corresponds to an ex ante estimate of the portion of taxes owed for year N (recorded in D.51) that will never be collected. The recovery rate is obtained as a moving average of recovery rates observed ex post on earlier years. This has led to a limited revision (at the most €1.2bn over the period 2006-2016) of the general government deficit, either upwards or downwards depending on the year.

Reclassification of the Société de Financement de l'Économie Française (SFEF)

The SFEF (French Economy Financing Corporation) was created in autumn 2008 to compensate for the collapse of interbank lending after the bankruptcy of Lehman Brothers on 15 September of that year. The SFEF, held 51% by private banks and 49% by the French State, issued State-guaranteed bonds on the markets and on-lent to banks.

In the March 2009 notification, INSEE classified the SFEF under general government given that ultimately, all the company's risks were incurred by the State as a result of the guarantee. However, in July 2009 Eurostat asked for SFEF to be classified as a financial corporation. After a series of exchanges on methodology in 2017, Eurostat and INSEE finally agreed that classification under general government seemed more appropriate.

As a result, the SFEF has been reclassified under general government in the 2014 base, as of its creation in 2008. The measure has virtually no impact on the deficit, however it does lead to an upward revision of gross government debt (by a maximum amount of €77bn at the end of 2009). Net public debt remains unchanged (general government assets having been symmetrically revised upwards due to the inclusion of the loans granted to banks by SFEF).

Other items

The sums paid by mobile telephone operators since the beginning of the 2000s in order to operate frequencies for a given period (typically 20 or 25 years) were recorded in a single operation in the 2010 base, at the moment when the operating licences were granted. In the 2014 base, in accordance with ESA 2010, these payments are recorded in the form of rents (D.45) spread over the duration of the frequency operating licence. This has resulted in an upward revision of the general government deficit in the years when the operating licences were issued (in particular in 2010, 2011 and 2016) and downwards in the other years.

The loans granted by the French State to the AFD (French Development Agency) in the form of resources with special conditions (RCS, loans with very low interest rates and deferred repayment of the capital) are now recorded as capital transfers paid by the State (D.99) at the time the loan is granted. Symmetrically, any repayments are treated as capital transfers received by the State. The impact generally does not exceed €0.2bn, except in 2015 when the deficit worsened by €1.1bn.

Certain cancellations of receivables and liabilities, mainly by local authorities, which were previously treated as financial transactions and therefore had no impact on the public deficit, are now recorded as capital transfers (received by general government when a liability is cancelled, paid by general government when a receivable is cancelled). The result is a revision slightly upwards of the general government deficit (by a maximum of €0.8bn).

The Tours-Bordeaux high-speed railway line (LGV) was financed by a concession granted by SNCF Réseau to a privately controlled company, but subject to arrangements (subsidies and public guarantees) such that the public authorities are bearing most of the risks linked to the financing of this line. Accordingly, in line with the Manual of Government Deficit and Debt (MGDD), INSEE considers that it is general government that is directly producing this line: treating it in this way increased the deficit in the years when the LGV was under construction by a total of approximately €5bn, spread over the period between 2011 and 2017.

Finally, the treatment of the interest recorded on the structured loans taken out by local authorities in the 2000s has been revised, in line with the analysis carried out by INSEE of the treatment to be applied to the cash payments made by these authorities when renegotiating these loans. The impact on the deficit can be up or down, varying from one year to the next, but never exceeds €0.3bn.

5. Miscellaneous items

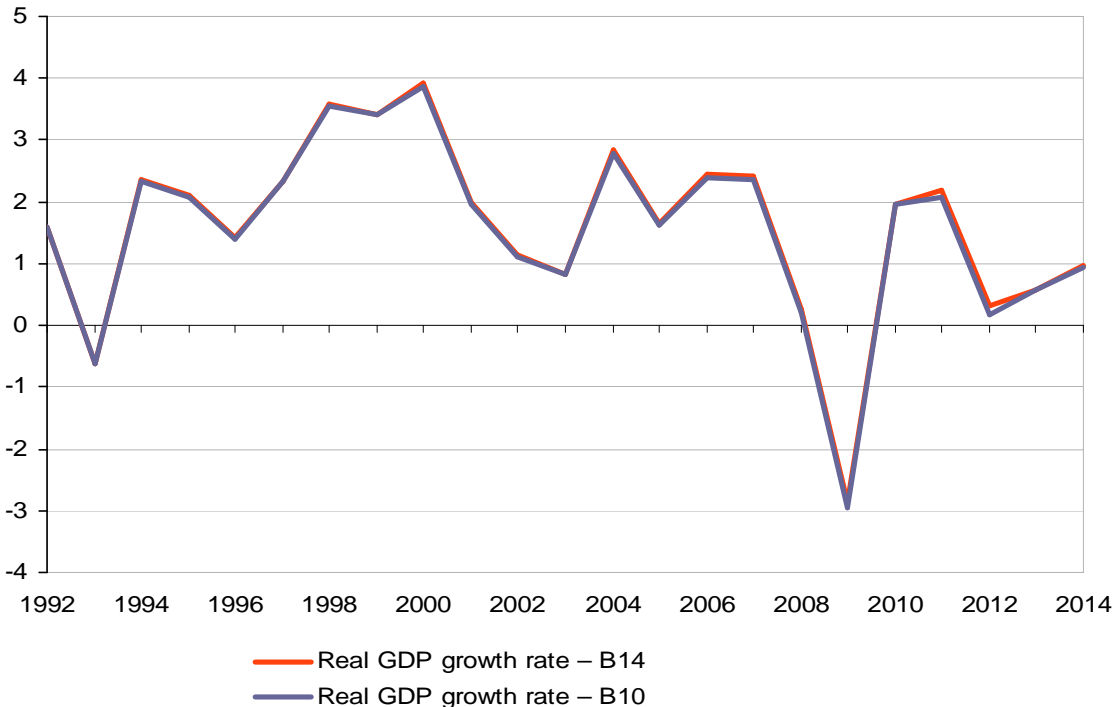
Two main innovations are worthy of mention.

First of all, activities linked to drug production and trafficking have been integrated into the estimates of the national accounts. The impact of this item is detailed in the document "*La prise en compte des stupéfiants dans les comptes nationaux en base 2014*" (Taking account of drugs in the national accounts in the 2014 base) <https://www.insee.fr/fr/metadonnees/source/s1375>).

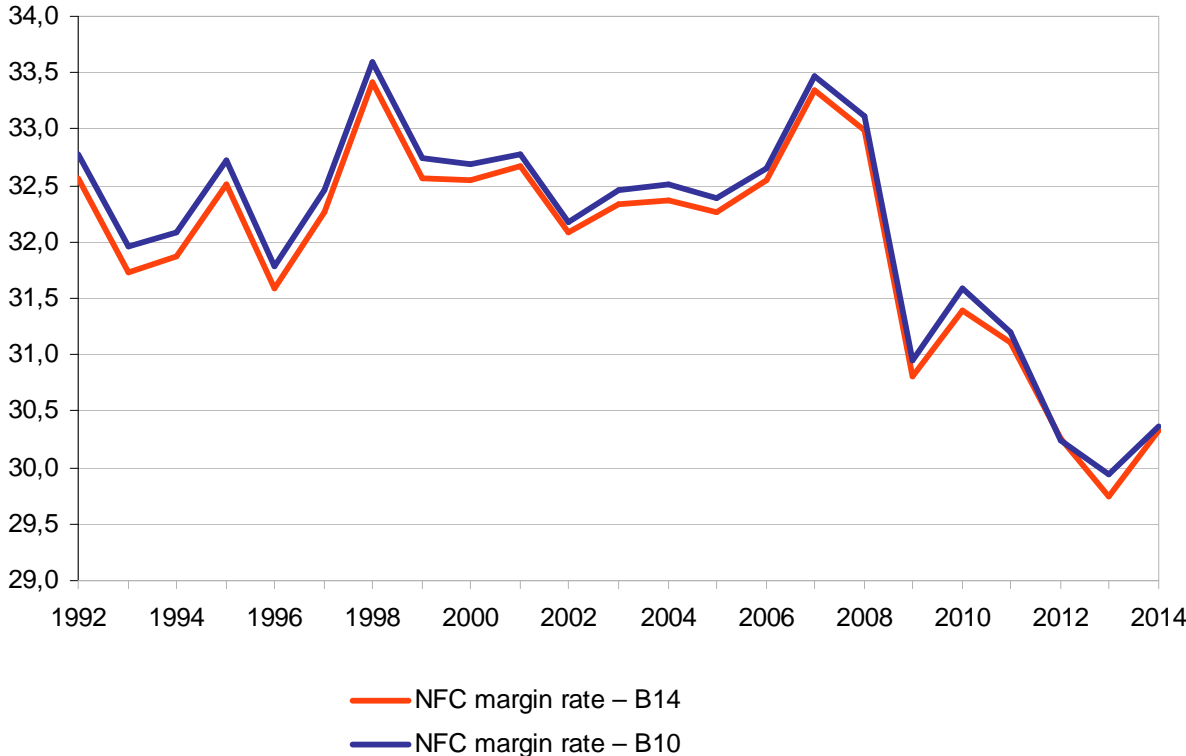
Secondly, the results of the 2013 National Housing Survey (ENL) on the growth in rents, in particular those imputed to households that own their own home, have been taken into account. This has led to an upward revision over the last 15 years of the production growth rate as well as that for household consumption expenditure on housing services. The annual real GDP growth rate is also revised slightly upwards (by a few hundredths of a GDP percentage point) over this period.

Appendix: long-term revisions of some aggregates

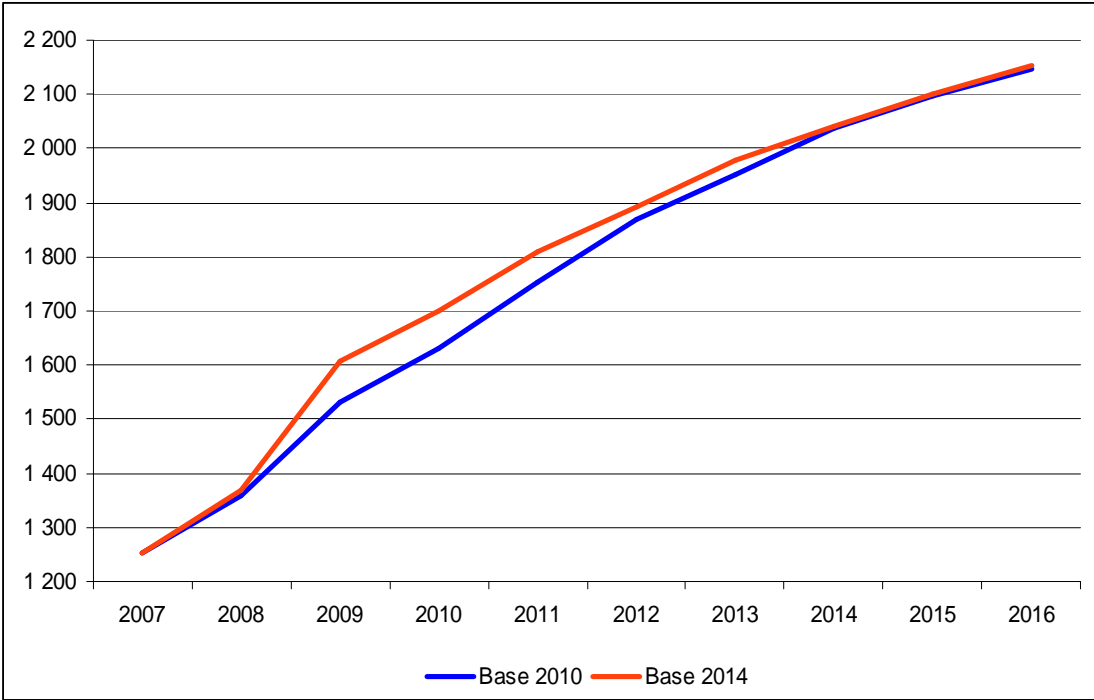
Real GDP growth rate (%)



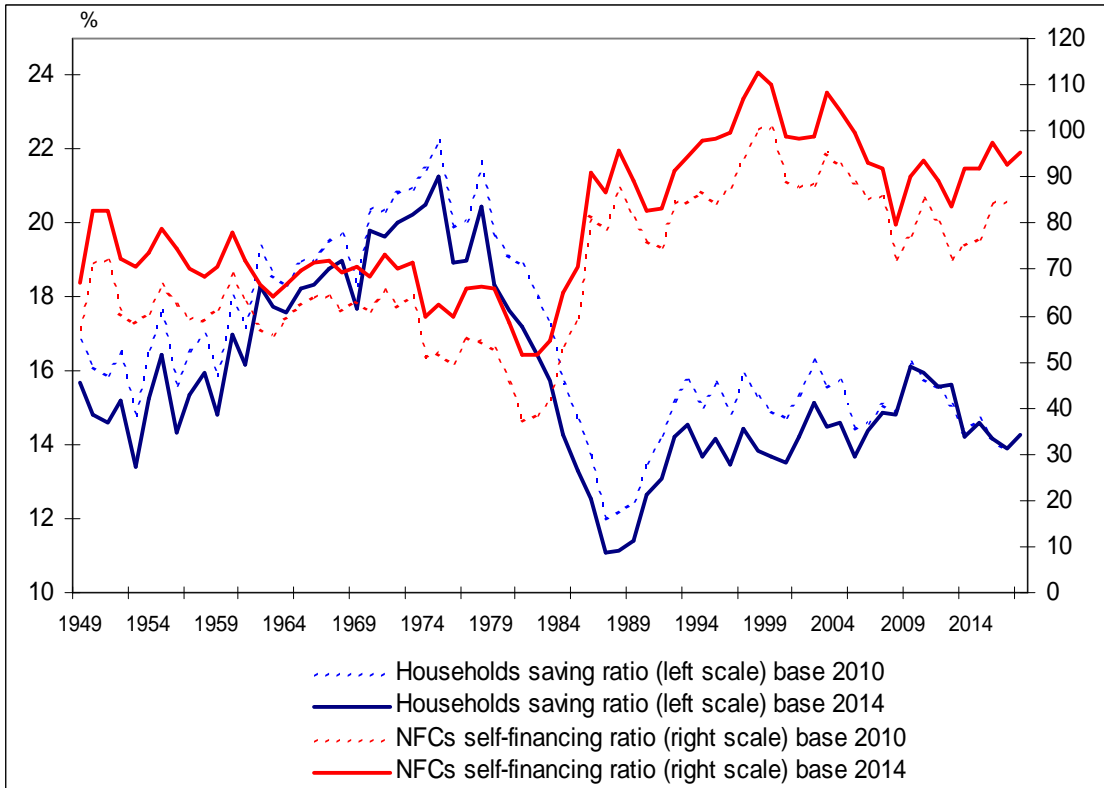
NFC margin rate (%)



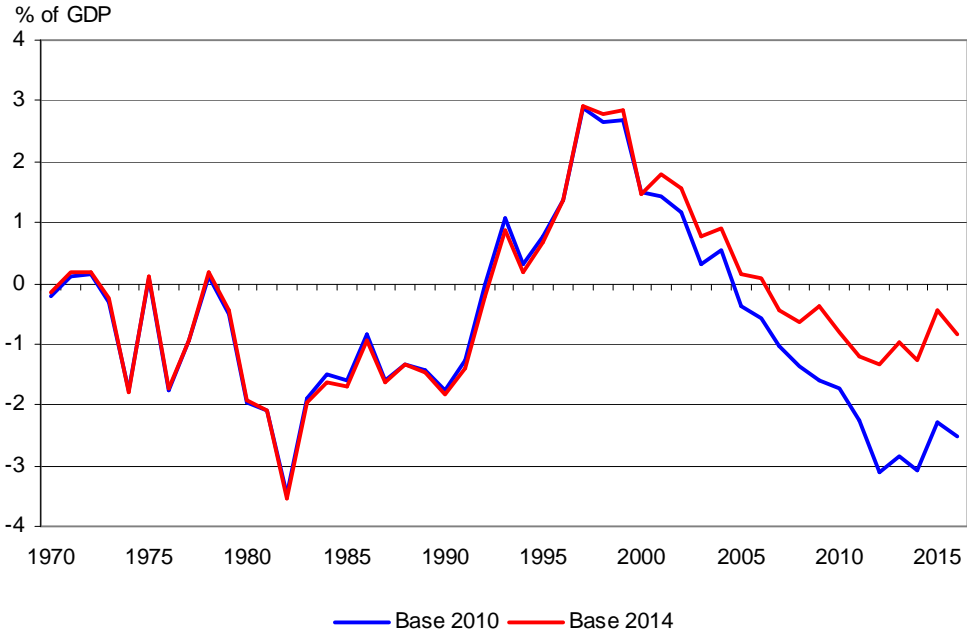
Gross general government debt (€bn)



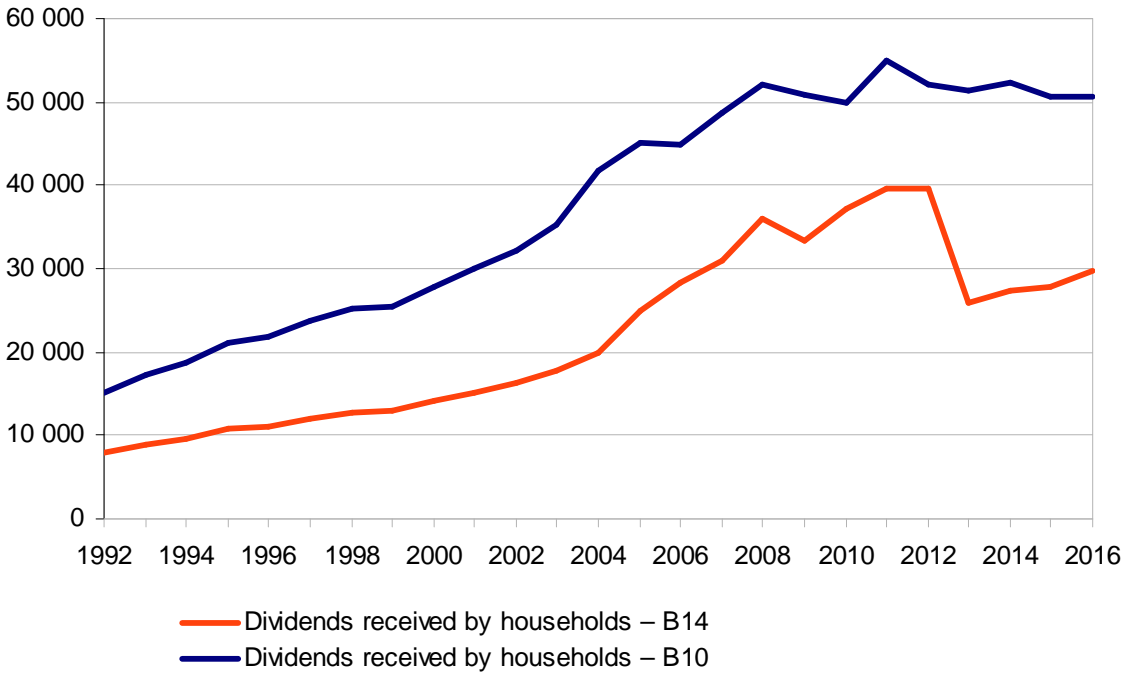
Households saving ratio and NFCs self-financing ratio



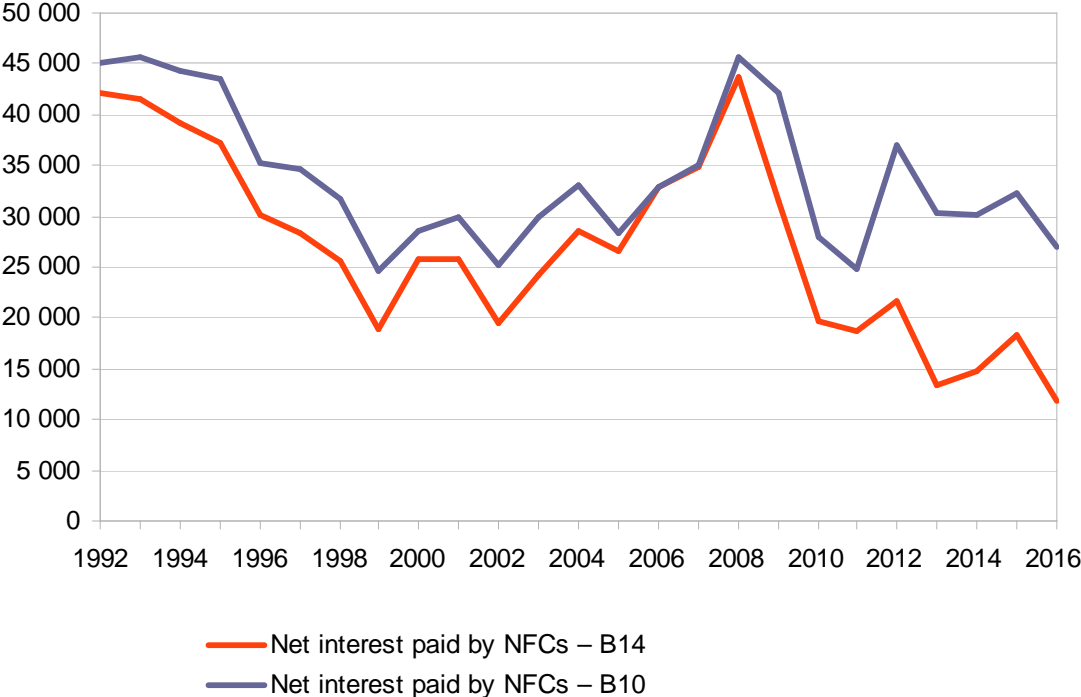
National net lending (+) / net borrowing (-)



Dividends received by households (€m)



Net interest paid by NFCs (€m)



Net income distributed by NFCs

