

## National accounts

National accounts provide a systematic description of the economy of a country and its components, in addition to the system of inter-relations between domestic and foreign economic operators.

In order to represent the functioning of the economic system in all its aspects, while still on an aggregate level, the transactions performed by economic agents (institutional units) are recorded in a sequence of accounts which start from the initial phase of income production, and pass through the subsequent phases of its distribution, redistribution and use, in the form of final consumption and saving, terminating in the phase of its accumulation in the form of capital.

The national accounts framework also allows for the analysis, by industry or product, of the interdependencies between economic operators described in the flows starting from the production process through to the use of goods and services.

The main dimensions of reference for macroeconomic analysis and comparisons by area, time or country are Gross Domestic Product (Gdp) and Gross National Income (Gni). Gdp represents the final result of the production activities of resident units, while Gni represents the total amount of income earned by residents in the country<sup>1</sup>.

The economic aggregates that make up the system of accounts are calculated by processing and comparing a wide range of information sources including censuses, statistics and administrative figures. The construction of aggregates is performed at the greatest level of disaggregation possible, in order to guarantee both a high level of reliability for estimates and an accurate analysis of the dynamics between different institutional units and sectors of economic activity.

Following Eu guidelines, the estimates ensure that Gdp is exhaustive, including the unobserved economy and other forms of operations that are not picked up due to the quality and reliability of information sources. These criteria make Gdp comparable between countries and therefore useful, on a European level, for the definition of the amount of financial resources to be paid to the Union by Member States.

Furthermore, despite the limits that Gdp presents as a quality-of-life indicator, it remains a fundamental parameter for measuring economic growth – also at a comparative level – thanks to the possibility of drawing comparisons between countries that extend a long way into the past.

The figures illustrated in the tables of this chapter cover a period from 1970 right up to 2015 for national accounts (from 1985 to 2014 for regional accounts). Due to the various reconstructions that took place over time, the figures of series going more backwards in time are not comparable with the figures for the most recent years, as indicated below in section “Warnings for time series comparisons”. In the section dedicated to the *Banca d'Italia (Bank of Italy)*-Istat time-series, data cover the period 1861-2015.

### The system of economic accounts

The concept of national accounting was first created during World War II in Anglo-Saxon countries, following the spread of Keynesian macroeconomics, and it was introduced in Italy after the war. Initially assigned to the *Banca d'Italia*, its processing was later entrusted to Istat in 1950, the year in which the first General report on the country's economic situation was published.

National accounts are compiled according to the guidelines set out by the main international organisations. The first formulation of a standardised system of rules and conventions for the drafting of economic accounts was issued by the United Nations after World War II, culminating in 1953 in the first

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<sup>1</sup> In practice, Gni (at market prices) equals Gdp minus primary income (compensation of employees, property income and taxation on production and imports paid to Eu institutions) payable by resident institutional units to non-resident institutional units plus primary income (compensation of employees, property income and subsidies received from the institutions of the Eu) receivable by resident institutional units from the rest of the world.

edition of the System of national accounts (Sna53), followed by the subsequent editions of 1960 and 1964. This system was introduced into Italian national accounts with the general review of 1965.

The new guidelines set out by the United Nations in 1968 (Sna68) prompted the European Community to draw up their own version adapted to Member States (European System of Integrated Economic Accounts – Esa70), implemented by the general review in 1975. The next guidelines were Esa95, based on the Sna93, introduced into national accounts since the 1999 general review. With respect to the previous guidelines, Esa95 provided a more complete overview of the economy of a country in that, by imposing the drafting of reports on capital and variations in assets and liabilities, it allowed a connection to be made between flow and stock figures, increasing the integration and coherence of national accounts estimates.

The system currently in use is Esa 2010, based on the Sna 2008. Esa 2010 has been adopted since 2014, within the framework of the general review of national accounts. The new regulation requires the capitalisation of R&D expenditure, to be considered as gross fixed capital formation rather than as intermediate consumption as before, with a positive impact on Gdp. The capitalisation of weapon systems expenditure, already contributing to Gdp as a component of General Government final consumption expenditure, further generates value added through the consumption of fixed capital. Other innovations concern the recording of the interchange flow of goods, giving priority to the transfer in ownership instead of the physical movement across borders, the valuation of output for own final use (for instance, own-account production for final use of software by market producers as major maintenance carried out by households), and the criteria for the inclusion of institutional units in General Government. Along with the transition to the new Esa, the estimate of some illegal activities has been introduced in the national accounts of all European countries, as already established in principle by Esa95.

Since the introduction of the European System of Integrated Economic Accounts, the following have become the main economic accounts:

- the goods and services account, which shows the balance between the components of the supply (production and imports) and of final demand (consumption, investment and exports);
- the production account, which shows the transactions relating to the production process of goods and services. The balancing item is value added;
- the generation of income account, which shows how value added covers compensation of employees and other taxes (less subsidies) on production. The balancing item is operating surplus;
- the secondary distribution of income account, showing the distribution and redistribution of income between the domestic institutional sectors of the economy and the rest of the world, from which disposable available national income is drawn. The balancing item of the account is disposable income;
- the use of income account, showing how disposable income is divided between final consumption expenditure and saving. Saving is the balancing item;
- the capital account, which records acquisitions less disposals of non-financial assets by resident units and measures the change in net worth due to saving (final balancing item in the current accounts) and capital transfers.

The necessary adaptation of accounts to the constant changes in the economic and social situation, coupled with the availability of new sources of information, leads to the process of accounting undergoing general reviews, regardless of the adoption of new codified guidelines at international level.

The review performed in 1987 was particularly significant in terms of calculating Gdp, including part of the products of the underground economy in the aggregates, based on a more accurate evaluation of labour input, anticipating one of the most important methodological innovations contained in Esa95.

The last general review performed in compliance with Eu regulations was based on the estimate of aggregates for the reference year 2011, using the new information sources with a new adaptation of calculation methods.

The review incorporated the results of the general censuses in 2010-2011 (15<sup>th</sup> Population and Housing Censuses, 9<sup>th</sup> Census of Industry, Services and Non-profit Organisations, 6<sup>th</sup> Census of Agriculture) and made use of archives integrating the results of Istat surveys on enterprises with data from administrative sources. In particular, the Frame-SBS archive pools the results of the Survey on the financial statements of enterprises with 100 or more employees (SCI) and of the sample survey on small and medium-sized enterprises (SMEs), integrated with administrative sources, mainly financial statements and tax sources (Business sector studies, Unico and IRAP tax returns), in order to derive economic information at enterprise level.

The reference universe for enterprises is represented by the Statistical Register of Active Enterprises (Asia), with the task of ensuring the full coverage of production units and the measurement of regular jobs. Regarding households, the main surveys performed by Istat are the continuous Labour Force Survey, the Household budget survey (recently renovated and renamed into Household expenditure survey) and the multipurpose survey "Aspects of daily life".

With respect to data from administrative sources, these are mainly drawn from archives managed by the Italian Revenue Agency at the Ministry of Economy and Finance, the National Social Security Institute (Inps) and the *Banca d'Italia*. The information source for imports and exports is the balance of payments, compiled by the *Banca d'Italia*.

For General Government, the information is drawn from an analytical database founded on both total statistical surveys and on administrative figures relating to the institutions that make up the institutional sector, covering balance flows, operating activities and the use of personnel, data taken from the financial statements of the institutions and the annual account of General Government employees compensation drawn up by the State general accounting department.

Estimates for regional accounts are also based on an integrated system of sources, mostly including the same references used for national accounts, together with additional sources to complete the territorial information overview.

Regional accounts produced in Italy are more detailed than Esa requirements, including labour units, all the resource and use aggregates, gross salaries and wages and social security contributions in addition to estimates of value added, gross investment, income from employment and domestic employment. Given that national estimates precede regional ones, these are aligned to the requirements of the most recent version of national values.

In addition to general reviews, national account aggregates are reviewed annually, mainly in order to bring estimates in line with the most updated information.

National accounts estimates are published biannually, in March and September. In March of each year  $t$ , final data for year  $t-3$  are released together with provisional data for years  $t-2$  and  $t-1$ . The second release in September allows a more timely exploitation of new information about years  $t-2$  and  $t-1$  that becomes available after the first release. Preliminary estimates of regional accounts for the previous year and revised results, based on the second release of national estimates, are generally published in November. The national figures presented in this chapter are in line with the national account estimates disseminated in March 2016.

### *Warnings for time series comparisons*

- The recent revision of the estimates of economic aggregates at the national level based on Esa 2010, whose first results have been disseminated in September 2014, has entailed the backward realignment of the series up to 1995. These series are presently available for the 1995-2015 period and they are consistent with those disseminated 4<sup>th</sup> April 2016;<sup>2</sup>
- The sections dedicated to the sequence of accounts and to national economic aggregates show the series based on Esa95 and expressed in terms of NACE Rev.1.1 from 1970 to the last available year, as disseminated on March 2011;
- The general revision of aggregates performed in 1999, in order to comply with the Esa95 guidelines, entailed the backward realignment of the series of national accounts up to 1970. These series, expressed in terms of NACE Rev.1.1, are presently available for the 1970-2010 period;
- The recent revision of the estimates of economic aggregates at the territorial level based on Esa 2010, whose first results were disseminated in December 2014, entailed the backward realignment of the series up to 1995. These series are presently available for the 1995-2014 period. They comply with the methodological innovations introduced by Esa 2010 in the national accounts and those specific to regional accounts, such as the new rules defining the transition from regional value added at basic prices to regional Gdp;
- Regional account figures relating to the 1995-2014 period are not comparable with figures broken down at territorial level relating to the 1980-1995 period, previously reconstructed by Istat and

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<sup>2</sup> Main methodological changes in national accounts estimates related to Esa 2010 are described at the following link: <http://www.istat.it/en/archive/131989> .

Svimez (Association for the development of industry in Southern Italy) on the basis of Esa95. Therefore two values are presented for the year 1995, each consistent with the respective reference series.