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REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

THE APPLICATION OF THE COUNCIL DIRECTIVE ON THE COMPILATION
OF GROSS NATIONAL PRODUCT AT MARKET PRICES

1. Introduction

The GNP Directive (Council Directive 89/130/EEC, Euratom of 13 February 1989) established the procedures to facilitate the verification, and where necessary the improvement, of the comparability, reliability and exhaustiveness of Member States' estimates of GNP. The adoption of the GNP Directive followed the creation of the fourth own resource of the European Communities (the GNP Resource).

This report summarises the progress made by the Commission and the GNP Committee since the adoption of the GNP Directive. This document has been produced in response to the Council's Declaration made with respect to Article 8, paragraph 2 of the Council Decision on the system of own resources 94/728/EC, Euratom of 31 October 1994.

The GNP Directive itself noted in Article 7 that special attention needed be paid to verifying and improving the exhaustiveness of the GNP estimates. That is to say, in particular, the coverage of the hidden economy. Exhaustiveness has thus been a top priority for the GNP Committee. The milestone in the work done so far was the publication of the Commission Decision on exhaustiveness (94/168/EC, Euratom of 22 February 1994).

Reflecting this priority, this report has been organised as follows: Section 2 summarises the most important work done on exhaustiveness. Progress on the so-called transversal themes and on country-specific matters is described in section 3. Conclusions are drawn in section 4.

This report focuses on the verification and improvement of the national accounts of the twelve Member States as of the end of 1994. The GNP estimates of the new Member States from 1 January 1995 (Austria, Finland and Sweden) will be assessed for the first time during 1996, as will those of Norway and Iceland as signatories to the European Economic Area Treaty.

The Commission has identified a number of points on which it has formally noted its reservations with the Member States. These reservations identify parts of the process of compilation of GNP where further efforts are needed to verify and if necessary improve the statistics. Foremost amongst the reservations is one concerning the exhaustiveness of each country's GNP estimates. In addition a range of transversal reservations exists (themes which need further verification or improvement in all Member States) and a variety of country-specific reservations.

2. Exhaustiveness

The Commission Decision on exhaustiveness of February 1994 was adopted after a great deal of effort to identify the best approaches to this very difficult matter. The Decision required Member States to submit reports on four aspects of exhaustiveness by the end of June 1994, and in some cases to carry-out substantial research in support of those reports. The four reports were as follows:

A detailed description of all of the explicit and implicit adjustments already made by the Member State to produce exhaustive GNP estimates.

A report describing the results of a specified piece of research into the use of employment data to validate the GNP estimates.

A report detailing the coverage of income in kind and tips or gratuities in the accounts, with proposals for improvements where necessary.

A report on the feasibility of using the fiscal authorities' audit information for improving the exhaustiveness of the national accounts.

The main conclusions from these exercises were as follows:

Concerning the existing calculations and adjustments made to ensure the exhaustiveness of each Member State's GNP estimates, it was clear that the need for and adequacy of any adjustments and calculations made for exhaustiveness could only be assessed in the light of the quality of the basic statistics and general methods used. The Member States' estimates are not all based on good quality data sources for all parts of the economy. For example, several Member States do not have good statistics for all services, and some do not have good quality business registers or do not maximise the use of the cross-checks inherent in the system of national accounts. Most of the Member States in this position already have concrete plans for improving the situation in the near future. Various Community initiatives support the Member States' efforts in respect of business registers and service statistics, in particular the Council Regulation on Business Registers (93/2186/EC, Euratom of 22 July 1993).

Furthermore, not all Member States make explicit adjustments for evasion (that is purposeful mis-reporting to the authorities) outside the construction industry, and the methods that are used vary widely. Further work needs to be done by nearly all Member States.

Concerning the use of employment data to validate GNP, the current situation on this work can only be fully assessed on a country by country basis. For some countries the exercise gave re-assurance to the existing GNP estimates. For others, the message was less clear. One general conclusion however was that the results from this exercise could and should be integrated in the GNP estimates as part of each country's next general revision of their national accounts. The general revisions are linked to the introduction of the new edition of the ESA ("ESA-95", the ESA being the set of national accounting guidelines in use for all of this work), which will take place during the next few years in each country. The deadline for the integration of the results is October 1998.

Concerning the coverage of incomes in kind and tips or gratuities, the main conclusion was that the extent to which adjustments are made differs substantially between Member States. These

differences reflect differences in the tax rules and regulations, in the importance of such income in the Member States, and in the interpretation of the accounting guidelines (the ESA). However there are also some unwarranted differences between the Member States. Thus further work in some Member States will be necessary.

Concerning the feasibility of using information from fiscal audits to improve the exhaustiveness of the GNP estimates, it was clear that the need to use such information depends on the availability of other possibilities to allow for evasion; and this differs for each Member State and for each industry. It was also clear that while some countries can and do use fiscal audit information, to varying extents, other countries are unable to do so, either for reasons of data confidentiality or because the non-random nature of the data makes its use in a statistical situation impossible.

To complete the work on exhaustiveness the Commission is using two approaches. It is working bilaterally with the Member States on the issues specific to each of them in turn arising from the reports noted above. In 1996 missions to the Member States are planned in order to discuss detailed plans for the work still to be done to help to ensure that this work is completed.

The Commission has also established four task forces in support of the GNP Committee targeted on those subjects for further investigation concerning all countries which have arisen from the reports in respect of the Decision. These task forces will advise the Commission, and hence in due course the GNP Committee, on the best methodologies to be used for construction, for distribution, on the use of households budget surveys and on estimating imports and exports under the Intrastat system. All four task forces will report by June 1996.

All the work on exhaustiveness currently under way should be complete and all the Commission reservations on the Member States' GNP estimates lifted by October 1998.

A more complete description of the work done following the Decision on exhaustiveness, and of the conclusions so far, is given in Annex A to this report.

3. The transversal and country-specific themes

The Commission has also been putting much effort into the verification of the comparability, reliability and completeness of Member States' GNP estimates with respect to a series of transversal themes (issues which concern all of the countries) and a large number of country-specific issues.

The **transversal themes** identified as being the most important for the Member States' GNP estimates are as follows:

- the definition of the economic territory
- the recording of taxes and subsidies
- the comparability and reliability of the estimates for dwelling services
- the comparability of estimates at the borderline between intermediate and final consumption.
- the completeness and recording of the activity of financial institutions
- the quality of the estimates for government and non-profit institutions
- the completeness of the estimates for agriculture
- the quality of the estimates for the transition from GDP to GNP
- the completeness of the estimates of VAT as a component of GNP

Progress has been made on all of these transversal themes. For some, the basis for reliable and complete estimates is now in place and some corrections to GNP have already been made. For others, the Commission is currently at the stage of collecting the very detailed information required before the need for any corrective action can be fully specified.

The current situation on each of the transversal themes, in outline, is noted below. More detailed information on each theme may be found in Annex A.

The economic territories for which GNP is to be reported for the GNP Resource were delimited in a Commission Decision in 1991.

The conceptual work needed to ensure the comparability of the Member States recording of taxes and subsidies was completed by the publication of three Commission Decisions in 1993. Work to ensure compliance in practice with the new provisions by some Member States is still necessary.

To ensure the comparability and reliability of the estimates for dwelling services, a Commission Decision was adopted in 1995. Member States are to provide GNP estimates compiled using a common and objective methodology by October 1996. In practice some countries may need a derogation to allow them to complete the work by October 1997.

The comparability and reliability of the estimates at the borderline between intermediate and final uses and for financial institutions have been pursued using extensive questionnaires seeking very detailed information. Reports setting-out any necessary improvements in the Member States will follow in 1996.

Concerning both government and non-profit institutions and agriculture, documents identifying the most important issues were discussed by the GNP Committee in 1994. More recently other more important work, for example on exhaustiveness, has taken priority, but these subjects will be taken up again in 1996.

The comparability and reliability of data for the transition from GDP to GNP has been discussed in a series of reports for the GNP Committee. Bilateral discussions have been held with each Member State and a list of points for improvement is being followed-up. An important difficulty in the recording of the activities of mutual investment funds has been identified. A Commission proposal setting-out a recommended common treatment of these funds, based on the work of a special Task Force, will be presented to the GNP Committee in March 1996.

The estimates of the VAT component of GNP, in particular with respect to the differences between the amounts of VAT collected by the fiscal authorities and the amounts theoretically payable according to the national accounts, has been discussed thoroughly by the GNP Committee. The potential impact on GNP of the different approaches being used by the countries to account for VAT within their national accounts will be assessed in bilateral discussions in 1996.

The work on all of the transversal subjects is scheduled to be completed by October 1997, though for dwellings results are expected in September 1996. Derogations may be necessary for some countries to allow some of the work to be completed by October 1998.

It should also be noted that the introduction of the new edition of ESA ("ESA-95") will change Member States' GNP estimates. Article 8.3 of the draft Council Regulation on the ESA-95, recently approved by the Council and expected to be adopted shortly, requires the GNP Committee to establish by the end of 1996 methods for converting GNP estimates compiled according to ESA-95 into ones consistent with the current edition of the ESA, which will still be needed for own resource purposes. A first paper detailing how and where ESA-95 affects estimates of GNP was presented to the October 1995 meeting of the GNP Committee.

Concerning the **country-specific issues** which are important for GNP, a great deal of progress may also be noted. The most important improvements made can be summarised as follows:

Great efforts have been made to fundamentally redevelop the national accounts of those Member States which were seen as having the weaker based GNP estimates. These redevelopments have already seen large changes to the GNP estimates for Greece, Luxembourg and Portugal (changes of the order of +20%, +15% and +10%, respectively). Similarly important developments are underway in Belgium and Ireland, though that is not to say that equally large changes to the GNP estimates of those two countries can be expected.

All of the Member States have done important work in response to the Commission's country-specific reservations on aspects of their GNP compilation methods. In many cases this work has enabled the Commission to lift its reservations on them. In the other cases the work in hand is expected to enable the Commission to lift the reservations by the target date of October 1997 (though, again, in some individual cases a derogation to allow a deadline of October 1998 may be necessary).

All of the Member States also have their own important national accounts development projects. These projects are not directly the consequence of work programmes emanating from the Commission and the GNP Committee but they are nevertheless very important and they complement them.

More detailed information on the county-specific improvements already completed by Member States or currently being implemented by them is given at Annex A.

The **impact of all of the improvements made so far** by the Member States' on their estimates of GNP where they are subject to reservation is given in a summary table at Annex B.

Concerning the **new Member States, and Iceland and Norway**, the Commission carried out a first visit to each of these countries during the second half of 1994, and duly reported to the GNP Committee on the main sources and methods used to calculate GNP.

4. Conclusions

From the above summary it can be seen that much progress has been made (for example in Greece, Luxembourg and Portugal) and that further important improvements are underway (for example in Belgium and Ireland). For most Member States, improvements have been made in many parts of the compilation process, although the net effects on GNP estimates have sometimes been small because adjustments have cancelled-out.

As a consequence of the work carried-out the most important deficiencies in the Member States' GNP estimates have either already been addressed or will soon be subject to improvements. The Member States' GNP estimates are therefore substantially more exhaustive, reliable and comparable than they have ever been.

However the work remaining on exhaustiveness, on some transversal themes and on some country-specific issues is considerable and important. A large part of that work is scheduled to be completed by October 1997, with all work including that on exhaustiveness due to be completed by October 1998.

It is impossible, at this stage, to estimate the likely impact on the GNP estimates of the work which remains to be completed.

During the next few years it will be necessary to ensure that the newest Member States (Austria, Finland and Sweden) and the European Economic Area countries (Norway and Iceland) also have reliable and exhaustive GNP estimates.

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Introduction

This annex to the report explains in more detail the extent of the work already completed or currently in progress to assure the comparability, reliability and exhaustiveness of the Member States' GNP estimates. The work is by its nature highly technical. This annex describes only the main themes and achievements. A discussion of the more technical matters is considered to be outside its scope.

Reflecting the importance of the work on exhaustiveness, this annex has been organised as follows: Section 1 of this report summarises very briefly the most important work done by the Commission with the assistance of the GNP Committee in the years leading up to the publication of the Commission Decision on exhaustiveness. The work done since the publication of the Decision, and the work that is planned up to 1997/1998, is described in more detail in section 2. . .

1. Tasks undertaken between 1989 and 1993

1.1 Preparatory work

The GNP Committee met for the first time in June 1989. The most important first steps were some essential preparatory work:

- Member States had to submit inventories describing the data sources and compilation methods they use to calculate GNP. These inventories had to be examined by Eurostat, with the assistance of the other Member States via the GNP Committee. Eurostat's reports on these inventories were discussed during 1992. These reports were also the basis the Commission's country-specific reservations on parts of the compilation process.
- A work programme had to be set up. A number of issues were selected for transversal investigation: taxes and subsidies, dwelling services, financial institutions, government and non-profit institutions, the distinction between intermediate and final uses, the transition from GDP to GNP and, of course, exhaustiveness. For all Member States a reservation was put on all of these aspects of their GNP estimates. In addition to the transversal reservation issues listed above, also several other issues were chosen for further transversal investigation by the GNP Committee, in particular: the definition of economic territories, agriculture, VAT, balancing procedures and the use of fiscal data.

Progress could be made quickly on one of the transversal issues. A Commission Decision defining the **economic territories** of the Member States for GNP fourth resource purposes was adopted (91/450/EEC, Euratom of 26 July 1991), completing the work needed from the Committee on this subject. For example, it was agreed that the Canary Islands, Ceuta and Melilla are part of the Spanish economic territory, that Madeira and the Azores are part of the Portuguese economic territory and that the overseas départements not included in Annex IV to the EC Treaty are part of the economic territory of France. It should also be noted that the economic territory of Germany changed in 1990 to include the new Lander.

1.2 Direction of GNP work

At the meeting of the GNP Committee in October 1990, the Commission presented a paper on the future direction of GNP work. This paper proposed the dual approach consisting of a transversal approach for a number of selected issues accompanied by a country-specific approach to some other issues. The paper also contained an overview of general approaches to improving exhaustiveness, setting out a range of approaches that might be follow-up by the Commission and the GNP Committee.

At the GNP Committee Meeting in October 1991, the Commission presented an overview of the explicit adjustments already made by Member States to give exhaustiveness, based on a first assessment of the inventories submitted by the Member States. The descriptions of the adjustments made by each Member State varied in detail; reflecting the heterogeneity of the inventories. The Member States expressed their opinions about the various statistical tools and data sources used to ensure exhaustiveness (e.g. business registers, commodity-flow methods, Labour Force Surveys) and about the possibilities for both transversal and country-specific approaches to this work.

1.3 First assessments of the Member States' estimates

A major part of 1992 was devoted to the discussion of the Commission's reports on the compilation methods of each of the Member States. During the GNP Committee meetings of July and September 1992, reports on the general sources and methods used in all Member States with the exception of Luxembourg were discussed. These reports included some description and assessment of the exhaustiveness of the GNP figures for the individual Member States.

1.4 Direction of the work on exhaustiveness

Also at the GNP meeting of July 1992, the Commission presented a short document noting the following criteria for the assessment of exhaustiveness: the existence of a well-defined reference universe of production units; the ability to ascertain absence; the ability to correct for absence; the existence of general and systematic adjustments for evasion; the existence of general and systematic adjustments for hidden labour.

At the GNP meeting of September 1992, the Commission presented a detailed proposal for a uniform work programme on exhaustiveness in the form of a draft Commission Decision. This proposal already distinguished the four main titles of the Commission Decision that would be published in February 1994.

During most of the GNP Committee meetings from September 1992 to September 1993, this work programme on exhaustiveness was the subject of long, detailed and intensive discussions before the Commission Decision was duly published in February 1994.

At the December 1993 meeting of the GNP Committee, the Commission presented a paper complementing Title IV of the Commission Decision. It described how the comparison of employment figures required by Title IV might influence the Member States' GNP estimates. It demonstrated that this influence is not mechanical, nor is it the same for all countries, but rather that the effect of the employment comparison on GNP estimates depends on national circumstances and the particular data sources and estimation methods used to compile GNP.

1.5 Progress on the transversal themes

The work programme on exhaustiveness took a major part of the time of the GNP Committee in 1993. Nevertheless, progress was also made on many other issues.

The conceptual work on the transversal issue **taxes and subsidies** was completed by the publication of three Commission Decisions concerning the guidance given in the ESA: one on production and imports subsidies (93/475/EEC, Euratom of 22 July 1993), another on taxes linked to production and imports (93/454/EEC, Euratom of 22 July 1993) and the third on the distinction between intermediate consumption and other taxes linked to production (93/570/EEC, Euratom of 4 October 1993). Work to ensure compliance with this guidance in practice was of course still necessary.

The work on **dwelling services** was taken forward by discussion of a Eurostat paper containing the results of a special questionnaire to Member States. It was agreed that the so-called stratification method should be used to estimate imputed dwelling services (that is to impute for the production and consumption of services which is implicit in the owner-occupation of dwellings) and that this method had to be used progressively in all Member States. A task force consisting of both national accountants and housing statisticians was established to work out solutions to various conceptual and statistical difficulties (e.g. the treatment of garages and rent-free dwellings and the absence of rented dwellings that are comparable to some types of owner-occupied dwellings).

The most important issues concerning **the transition from GDP to GNP** were identified in a document for the GNP Committee's meeting of October 1991. Consultants undertook bilateral visits to each of the Member States during 1993 (and in one case 1994) to study these problems.

1.6 Progress on country-specific issues

Reports of GNP control missions to five Member States were presented at the meeting of October 1993. Many other such reports have been presented since. Furthermore, a Eurostat report on the estimates for the French overseas provinces was also discussed.

Individual Member States also made sizeable efforts to improve their GNP estimates during this period, in particular with respect to their exhaustiveness.

For some Member States (Portugal, Greece and Luxembourg), special support programmes were set up by Eurostat in order to revise and upgrade their national accounts.

Other Member States had already planned a revision of their national accounts (United Kingdom and the Netherlands).

Ireland made substantial efforts to improve the reliability of its estimates from the income approach for both wages and the operating surplus.

Germany was in a special situation, since from 1990 it had also to provide figures on the new Länder. Setting up a totally new statistical system for the new Länder required a massive extra effort from the Statistisches Bundesamt.

For some other Member States, estimates had to be produced or included for specific areas, e.g. France had to include estimates for its overseas départements. Furthermore, many Member States have introduced other improvements which may have been less visible but which have nevertheless contributed substantially to the quality of their GNP estimates.

2. Tasks undertaken since the publication of the Commission Decision on exhaustiveness in February 1994

2.1 The scope of the decision on exhaustiveness

According to the Commission Decision of February 1994, Member States were to submit reports on four titles of the Decision by the end of June 1994. In practice several of the reports were submitted some months late, as some countries found it impossible to complete the large amount of work required while continuing to meet the other demands put on them.

At the December 1994 meeting of the GNP Committee, Eurostat presented two overview papers on the reports submitted by the Member States. These overview papers covered the work done under Title IV, on the validation of employment underlying GNP, and Title VI on the feasibility of the use of fiscal audit information for improving exhaustiveness.

At the April 1995 meeting of the GNP Committee, Eurostat presented a paper summarising for each Member State the work still to be done on Title IV, the validation of employment underlying GNP estimates. This paper was based on the results of special missions to most Member States judged to be necessary following the December 1994 meeting.

At the June 1995 meeting of the GNP Committee, Eurostat presented overview papers on the two remaining titles of the Decision, that is on Title III, concerning the existing calculations and adjustments made to ensure exhaustiveness of the GNP estimates, and on Title V, income in kind and tips. The former paper was backed by a whole set of detailed reports on each of the Member States.

2.2 Title III: Descriptions of the existing calculations and adjustments made to ensure the exhaustiveness of Member States' GNP estimates

The purpose of this part of the Decision was to gather additional information from the Member States to clarify where and how they make calculations or adjustments which either

- make explicit allowance for units registered with the public authorities but not covered in statistical surveys and units exempted from registration or otherwise not registered, or which otherwise mis-report or do not report part of their activities.
- or, make implicit allowance for such omissions

Eurostat's summary of Member States' replies was presented to the June 1995 meeting of the GNP Committee. That document emphasises one very important point: the need for and adequacy of any adjustments and calculations made for exhaustiveness can only be assessed in the light of the quality of the basic statistics of that country.

The **main conclusions** of the document were as follows:

- The Member States' estimates are not all based on good quality data sources for all parts of the economy. For example, several Member States do not have good statistics for parts of market services. However most of the Member States in this position already have concrete plans for setting-up such statistics in the near future.
- Member States make many efforts to adjust for units not covered by the basic data sources. In order to make systematic adjustments for such units, a good business register with a wide coverage is indispensable. Such a business register is also crucial for the good linkage of various types of data sources. Such a business register is missing in several Member States, but most countries in that position already have concrete plans for setting-up such a business register in the near future or are working to improve or extend their existing business registers.
- Some Member States do not exploit all the possibilities that exist for cross-checking their data, by comparing it with alternative data sources and by reconciling it in a systematic framework such as a supply and use table. However several of the Member States which are most deficient in this respect are already working on improving the situation or have plans to do so.
- Only some Member States make explicit adjustments for evasion (that is purposeful mis-reporting to fiscal or other public authorities) in industries other than construction. Furthermore, for construction the methodologies, data sources and assumptions vary widely. Further work needs to be done by nearly all Member States. Two Task Forces, on construction and distribution, where evasion is most common in most Member States, would be set-up up to look into all aspects of the estimation methods used for these industries, including evasion allowances. Part 3.6 of this report explains the role of these Task Forces in more detail.

These conclusions summarise in general terms the strengths and the limitations of the Member States' current estimates with respect to exhaustiveness.

However in order to see the wider picture the following examples of explicit and implicit adjustments for exhaustiveness already made by the Member States should also be noted. The examples which follow are not a complete listing of all of the adjustments made during the processes of compilation, nor are the figures for each country comparable for the reasons noted above, but they do give a flavour of the efforts made.

Belgium makes a large number of detailed implicit and explicit adjustments for exhaustiveness. However, despite these adjustments, the lack of good quality and up-to-date basic statistics for many parts of the Belgian economy means that the estimates of GNP even after adjustment cannot yet be confirmed as necessarily exhaustive.

Denmark makes a range of implicit adjustments (and some explicit adjustments) to its estimates from the production approach, for example by using functionally derived estimates for a large part of construction activity and expenditure estimates for some service activities.

France makes systematic adjustments to what is in general already high quality basic data to make allowances for the absence of units, fiscal fraud and evasion including VAT fraud and hidden labour. Altogether these adjustments result in an addition to GNP of some 12%.

Germany estimates GDP from both the output and expenditure approaches, with various adjustments made during the compilation process adding some 6% to GNP, and then chooses the higher of the resulting output and expenditure estimates as the definitive figure. A further positive adjustment is then made to allow for any incompleteness which might remain. Together these two last procedures add over 0.5% to GNP.

Greece has undertaken a major development of its national accounts with the aim of making them more complete. The more reliable methods now used, and more complete coverage of economic activity, resulted in an increase of some 20% to the previous estimate of GNP for 1988, with similarly large increases for other years.

Ireland uses data from the Census of Population to adjust and supplement other data received on numbers in employment and self-employment and hence the income of these groups. A separate substantial adjustment to allow for the possible under-reporting of income by the self-employed is also made.

Italy uses employment statistics to make systematic adjustments to its data from enterprises to allow for unreported and hidden employment and for the likely under-reporting of activity. Use is also made of indirect methods for ensuring exhaustivity such as functional estimation methods. The adjustments for irregular labour add some 8% to GDP, and those for under-reported income add around another 3%.

Luxembourg completed a major revision of its national accounts in 1994, making them more reliable and complete in several respects and adding some 10% to GNP. Luxembourg makes allowances for activity not captured in its basic statistics. However, with the exception of domestic services, adjustments are not made for hidden labour or purposefully under-reported activity.

The Netherlands has a strong set of basic statistics underlying its national accounts, notably incorporating data from the VAT system and its system of labour accounts to help to ensure the exhaustiveness of its estimates. In addition explicit adjustments are made for the under-reporting of activity in a range of branches. The explicit adjustments are based mainly on data from the fiscal authorities and add about 1% to GNP.

Portugal completed a major revision of its national accounts system in 1993 with the aim of making them more complete and reliable. In the new system data on the demand for products is used to add some 5% to the basic data on production, and comparisons with the Labour Force Survey add about 2% more. The revision itself added some 15% to GDP.

Spain makes valuable cross-checks between its data to ensure that they are as complete as possible, for example using employment data, and makes an explicit adjustment for unreported construction activity.

The United Kingdom has introduced a supply and use framework to improve the cross-checks between its data, and has undertaken a major redevelopment of its business register. Explicit adjustments are made for construction activity and a further general adjustment is made for exhaustiveness based on the historic under-estimation of the income approach when compared with the expenditure approach.

2.3 Title IV: Validation of the estimates of employment underlying the present GNP estimates

Title IV of the Decision required comparisons of the employment data according to demographic data sources with the employment estimates underlying the GNP estimates. This involved standardising the definition of employment for the comparison on that of the domestic occupied population. The demographic data sources to be used were the Labour Force Survey and the Population Census or its national equivalent if no Population Census existed. The Decision sought the comparison at a specified level of detail by branch (NACE-CLIO R44 for services and NACE-CLIO R25 for the other branches). The format for the tables to be provided was set out in an annex to the Decision.

This part of the Decision was inspired by the Italian approach to using employment as a key variable for ensuring the exhaustiveness of the national accounts. If the same statistical sources used to estimate production and/or value added for the national accounts can also be used to yield an estimate of employment, then that employment estimate can also be assessed for completeness against the estimates of employment available from demographic sources. If the comparison should show a deficiency in the employment estimates underlying the national accounts, then there may well be grounds for believing that production and value added are also understated in the national accounts. If the comparison shows no such deficiency then one likely conclusion is that the national accounts cover at least employment exhaustively.

The first results of the exercise were set out in a Eurostat paper for the December 1994 meeting of the GNP Committee. This paper focused on:

- Clarifying the concept of employment underlying GNP. There had been some confusion in some Member States where various employment estimates were linked to the national accounts.
- Describing what had thus far been achieved by the Member States. Some had completed the work as required while others had not.
- Presenting the first results.

It was clear from the paper that two steps were required immediately:

- Bilateral discussions were required with most Member States in the very short-term. These discussions were required to clear up any remaining difficulties concerning the identification of the work still required according to the Commission Decision and to agree how and when this work should be completed.

- Task Forces should need to be set-up to look at all aspects of the quality of the different estimation methods for certain branches, for example construction and distribution, including the subject of employment comparisons for these industries.

The further discussions with Member States on employment comparisons took place during the first quarter of 1995. In eight cases special missions to Member States were undertaken. At the meeting of the GNP Committee in April 1995 a second paper on this subject was presented, giving an overview of the work still to be done.

The **current situation** on this work can only be fully summed-up on a country by country basis. One general conclusion however was that the Member States agreed that the results from this validation exercise could only be integrated in their GNP estimates as part of each country's next general revision of the national accounts. This was thought to be the only feasible option because:

- A revision is already necessary to introduce the new concepts and classifications from the new ESA, the NACE(*) and the CPA(**).
- A revision is already necessary for taking account of new data sources and compilation methods such as the new services statistics and improved business registers.
- Employment statistics can best be reconciled and integrated by using all the other information available, including the new data sources and classifications to be introduced as part of the next general revisions.
- One general revision instead of several successive ones limits the disruption to the national accounts. This is an advantage to both data compilers and most data users.

2.4 Title V: Description of the regulations and statistical adjustments pertaining to income in kind and tips or gratuities

Under Title V of the Decision Member States were asked to:

- draw-up a survey of the tax rules on a list of incomes in kind and describe for each type of income in kind the procedures used to ensure that they are correctly recorded in the national accounts;
- describe the calculations made in respect of tips or gratuities.

(*) NACE: Classification of activities

(**) CPA: Classification of products by activity

The point of interest for Eurostat and the GNP Committee is to ensure that these types of income are not omitted from value added and hence from GNP, either by being omitted from the statistical data system altogether or by being recorded incorrectly as the intermediate consumption of enterprises. Some types of income in kind and tipping are thought to be important components of total incomes in some Member States

Eurostat presented a report on the studies made by the Member States to the meeting of the GNP Committee held in June 1995.

The **main conclusions** were as follows:

- Firstly, the reports themselves were rather heterogeneous in length, detail, clarity and completeness. Eurostat would hold bilateral discussions with each of the Member States to ensure that clarifications or additional information were provided as necessary.
- Secondly, the extent to which adjustments are made for income in kind and tips differs substantially between Member States. These differences reflect differences in the tax rules and regulations, differences in the importance of the various types of income in kind in the Member States and differences in the interpretation of the ESA. However they also seem to reflect differences between the Member States which are unwarranted. Thus further work in some Member States will be necessary.

2.5 Title VI: Investigation into the feasibility of the use of information from fiscal audits for improving the exhaustiveness of the GNP estimates

At Title VI of the Decision Member States were asked to report on the feasibility of using audit information from the fiscal authorities to improve the exhaustiveness of GNP estimates. Personal and corporate income tax and value added tax systems, together with the corresponding audit mechanisms, exist in all Member States. In some Member States, notably France, information from fiscal audits is already used to improve the exhaustiveness of GNP estimates.

Eurostat presented a paper summarising the Member States' reports to the December 1994 meeting of the GNP Committee.

The **main conclusions** from these reports were as follows:

- The need to use fiscal audit information depends on whether there are other possibilities to make adjustments for evasion; this differs for each Member State and each industry. Similarly the likely size of evasion will differ between Member States and between industries.
- The results of fiscal audits are taken into the national accounts in some countries by the use of statistics inclusive of the results of fraud control exercises. This is the case for example with the use of VAT statistics by Denmark, Germany and the United Kingdom.

- The results of fiscal audits are used by some other Member States to make separate adjustments for evasion. This is the case in France, where the adjustments made cover the whole economy, and in the Netherlands for certain service industries.
- In the near future the use of fiscal data inclusive of fiscal audit information will be extended in the Netherlands and Italy and, perhaps, Belgium.
- Several Member States intend to use fiscal audit results to make separate adjustments or to verify adjustments already made on the basis of other data sources. This is the case in the Netherlands, the United Kingdom and Portugal.
- The use of fiscal audit information to make separate adjustments does not seem feasible for various reasons in Belgium, Germany, Ireland, Italy, Luxembourg and Spain (and perhaps Greece, but the position in Greece needs to be clarified). Two main stumbling blocks were cited: data confidentiality and the difficulty of applying the results for the non-random selection of enterprises subject to audit to the universe of all enterprises. It is usually the case that fiscal audits are targeted on enterprises thought most likely to fraud. Thus it cannot simply be assumed that enterprises which are not audited have the same characteristics as those that are.

2.6 The follow-up to the Commission Decision on exhaustiveness

In order to take forward the work on exhaustiveness the Commission established task forces in support of the GNP Committee targeted on some specific topics. These task forces will advise the Commission, and hence in due course the GNP Committee, on the best methodologies to be used for construction, distribution, on the use of households budget surveys and on estimating imports and exports under the Intrastat system.

The **Task Force on Construction** will give an overview of the most important data and estimation problems for that industry (e.g. the problems of subcontracting, seasonal work, evasion of output and income) and suggest ways in which they can be best overcome (which types of data are most useful, how to combine the figures from various data sources, etc.).

The **Task Force on Distribution** will do the same for the wholesale and retail industries (e.g. the determination of trade margins, the separation of sales into those to final users and those to business) and for cafes, hotels and restaurants.

The **Task Force on The Use of Household Budget Surveys** will investigate how the figures from the household budget surveys can be used when compiling GDP estimates in general and to what extent they can be a tool for capturing under-reported sales (e.g. in retail establishments, hotels, cafes and restaurants).

The **Task Force on the Use of Intrastat data** will investigate how the GDP estimates can be safeguarded and improved using this data. Since the abolishment of the intra-EU customs formalities and the introduction of Intrastat for recording intra-EU trade in merchandise, the accuracy of the statistical information on this type of trade seems to have declined substantially, in particular at the product-group level. Such a decline of the quality of information on foreign trade reduces the reliability of the expenditure and commodity flow methods for estimating GDP. It is also likely to reduce the quality of the balancing process. Improvement of the statistical information

on intra-EU trade in merchandise is therefore very important for maintaining and improving the quality of the Member States' GDP estimates.

The first meetings of each of these Task Forces took place between September and November 1995 and more meetings are planned for the end of 1995 and the beginning of 1996. All of the Task Forces will report back to the GNP Committee by the end of June 1996.

The **work on exhaustiveness** should be complete and the Commission reservations lifted by October 1998.

It should be noted however that some difficulties in achieving this date in some Member States are likely. The precise scope of the work required from each Member State will vary, and it is not yet fully specified. For example, the recommendations of the four GNP Committee Task Forces will not be known until June 1996. Those recommendations will need to be considered by the Commission and then discussed and agreed by the GNP Committee, before being implemented by October 1998.

In 1996 missions to the Member States are planned in order to discuss detailed plans for the work still to be done to ensure exhaustiveness before October 1998, e.g. on employment comparisons, which should be incorporated as part of the forthcoming revisions of national accounts, or on estimating income in kind, in particular on the treatment of the private use of business cars.

2.7 Progress on the transversal issues since 1994

Alongside the major efforts made on exhaustivity, much progress was made on the other transversal subjects of reservation and investigation facing the Commission and the GNP Committee. The following points of progress are notable:

The Task Force on **dwelling services**, which began its work in mid 1993, completed its work by mid 1994 by specifying the manner of application of the stratification method. Based on its work, Eurostat presented a draft Commission Decision specifying the methodology to be used in all Member states to the meeting of the GNP Committee in December 1994. After some modifications on points of detail, the proposal gained the unanimous support of the GNP Committee, and the Commission Decision was duly adopted (95/309/EC, Euratom of 18 July 1995). Member States are required to provide GNP estimates compiled using the new common methodology for dwelling services for the years 1988 onwards in the data transmission for GNP own resource purposes due in September 1996. In practice some countries may need a derogation to allow the work to be completed by the end of September 1997.

The comparability of estimates at the **borderline between intermediate and final uses** was discussed in a document for the GNP Committee in July 1994. Issues of particular concern include, for example, the recording of expenditures on infrastructure repairs, improvements and renewals, on small value capital goods and on software. Detailed information on the practical steps Member States take to conform with the ESA regarding such expenditures will be required before comparability can be verified and where necessary improved. An extensive questionnaire seeking this information was sent to Member States in October 1994 for answer by the end of 1995.

Eurostat presented a first document on **financial institutions** to the GNP Committee in January 1994. The document identified a number of technical questions concerning the measurement of the output of some types of financial services (such as insurance and foreign exchange dealing) and

some other questions concerning the coverage of certain types of financial institutions (such as those institutions which are not supervised by the government or central bank) in the statistical reporting framework. It was followed by a questionnaire to each Member State seeking detailed explanations of these points and posing some further questions for each country following a detailed study of their inventories as they concern financial institutions. Most of the replies to the questionnaire have now been received and a follow-up report will be prepared for the GNP Committee during the next few months.

Concerning **government and non-profit institutions**, a first document identifying the most important issues was presented to the GNP Committee in December 1994. The Committee's view was that while at least some of the issues are undoubtedly of some importance for GNP, particularly the subject of the imputation of the consumption of fixed capital for government capital assets, they are of lesser priority than many of the other subjects also being studied at the same time by the Committee (e. g. exhaustiveness). It was agreed therefore that further work on government and non-profit institutions should be deferred for a year or so, in order that more important work could be progressed. This subject is therefore due to be taken up again shortly with the GNP Committee.

The earlier work on **the transition from GDP to GNP** noted in section 2 of this document was followed-up by a report to the GNP Committee meeting of December 1994. This report followed the bilateral discussions on the subject held with each Member State and identified a list of points needing improvement in some Member States and an important difficulty in the recording of the activity of mutual investment funds common to all Member States which was in need of further investigation. The Committee decided to set-up a Task Force to propose what should be done on mutual investment funds. The Task Force met three times in the first half of 1995. A document setting-out a recommended treatment of these funds based on the work of the Task Force was presented to the GNP Committee at its meeting in October 1995. Discussions were continued at the December 1995 meeting of the Committee and are expected to be concluded in March 1996. The other points of weakness concerning the transition from GDP to GNP which need improvement in some Member States are being pursued on a bilateral basis.

The subject of **agriculture** was discussed in a document for the GNP Committee in July 1994. A large number of detailed and technical difficulties in measuring the agricultural contribution to GNP were identified. Weaknesses, usually of minor consequence, were found in the estimates for many Member States, but a reservation was thought necessary and so introduced on the Portuguese estimates for agriculture. Often the general points of weakness found were connected to the use of the concept of the "national farm" for agricultural economic accounts, and its incomplete compatibility with the concepts needed for national accounts. The Committee decided to consult the specialists in agricultural economic accounts of a working party attached to the Committee on Agricultural Statistics on the technical and detailed points raised in the document. The GNP Committee will return to the subject during 1996, once this advice has been received.

The subject of **the use of VAT data** for estimating GNP has long been a subject of interest for the GNP Committee. Two aspects of this subject have been of particular interest, both hinging on the calculation and interpretation of the theoretical amount of VAT: that is the amount of VAT that can be expected if the VAT rules and regulations are applied to the estimates of economic activity contained in the national accounts. The first aspect of interest concerns the interpretation of the difference between this theoretical amount of VAT and the amount of VAT actually received by the state. The second aspect of interest concerns which VAT concept is actually used as the VAT element which is a component of GNP. At the January 1994 meeting of the Committee Eurostat

presented a paper identifying differences between the concepts used for the estimate of VAT as a component of GNP in some of the Member States and setting out the main themes for further investigation. This was followed by a short questionnaire to collect the additional information needed to take this work forward, and then by a second document for the GNP Committee's meeting in June 1995. Discussion to agree a feasible common method for estimating VAT as a component of GNP for all Member States were taken up again at the December 1995 meeting of the Committee and will be further pursued bilaterally.

The **work on all of the transversal subjects** is scheduled to be complete and the Commission reservations lifted by October 1997 (for dwellings results are due in September 1996). Derogations may be necessary for some countries to allow some of the work to be completed by October 1998.

2.8

Progress on the country specific issues since 1994

Much progress has also been made in individual Member States to improve the comparability and reliability of their GNP estimates in country-specific ways. The improvements made can be summarised as follows:

Great efforts have been made to fundamentally redevelop the national accounts of those Member States which were seen as having the weaker based GNP estimates. These redevelopments have already seen large changes to the GNP estimates for Greece, Luxembourg and Portugal. Similarly, important developments are underway in Belgium and Ireland, though that is not to say that equally large changes to the GNP estimates of those two countries can be expected.

All of the Member States have done important work in response to the Commission's country-specific reservations on aspects of their GNP compilation methods. In many cases this work has enabled the Commission to lift the reservations concerned. In the other cases the work in hand is expected to enable the Commission to lift the reservations between the time of writing and the target deadline of October 1997 (though again in some cases a derogation to allow a deadline of October 1998 may be necessary).

All of the Member States also have their own important national accounts development projects. These projects are not directly the consequence of work programmes emanating from the Commission and the GNP Committee but they are nevertheless very important and they complement them.

A complete list of the individual improvements made by each Member State would be very long indeed. Major improvements made already by Member States or currently being implemented by them include the following:

In Belgium, a series of institutional changes have been made with the intention of giving a new impetus to the development of the national accounts. The existing system, noted as having considerable shortcomings by Eurostat in a detailed report of 1992, will be subject to a major overhaul. Important new features of the national accounts system will include a new range of basic statistics from enterprises and the replacement of the 1958 OECD framework of national accounts with that of the ESA.

In Denmark, work already completed has enabled the Commission to lift one reservation specific to Denmark, and another is expected to be lifted shortly. The Commission has also been able to lift its reservation on taxes and subsidies, after some changes were made by Statistics Denmark. Work on a wide-ranging revision of the national accounts, involving the incorporation of several important new data sources, is due to be completed in mid-1997. The revision includes a number of projects which address themselves at the Commission's remaining points of reservation specific to Denmark and others which take forward the work done so far on exhaustiveness.

In France, improvements made to some of the component national accounts estimates have allowed the Commission to lift one of its reservations specific to France and the reservation on the

transversal reservation on taxes and subsidies. Work is also in progress on the longer-term developments needed to lift the remaining reservation specific to France.

In **Germany**, estimates GNP inclusive of the new Länder of Germany were presented to the GNP Committee. A Commission report to the GNP Committee in July 1994 gave a critical appraisal of them, noting the great efforts that had been made and some areas where they can be improved in the future. The Commission reservations specific to Germany (both the old and new Länder) are being addressed, with the different pieces of work required due to be completed at various dates between now and October 1997. The transversal reservation on taxes and subsidies has been lifted for Germany.

In **Greece**, the national statistical office has, with assistance from some technical experts funded by the Commission, made great improvements to its national accounts. The major revision, largely completed in 1994, featured improved methods for, for example, construction, distribution and business and personal services, and led to the previous GNP estimates increasing by over 20%. Although some further improvements are still necessary, it is clear that a very substantial increase in the comparability and reliability of the Greek national accounts has already been achieved. The information still needed by the Commission before the specific reservations for Greece can be assessed and then in due course lifted is expected to be provided by February 1996.

In **Ireland**, a number of projects to give important improvements to the reliability of the estimates of GDP from the income approach are continuing. In addition the development of the expenditure approach and of a supply and use framework will lead to more dependable national accounts. These developments are due to be completed in 1997, when, if the work is successful, it should be possible to lift all of the Commission's reservations specific to Ireland.

In **Italy**, the existing use of employment data to give exhaustive national accounts is recognised to be a good foundation for them. Work to make the maximum use possible of family budget surveys and to build a good quality business register is underway. Once these major tasks are completed it is expected that the Commission's reservations specific to Italy should be lifted.

In **Luxembourg**, a major revision was completed during 1994, featuring improvements to many of the basic statistics particularly for services and some of the estimation methods used. The previous estimate of GNP was increased by some 10% as a result. Once full documentation is received on the revised system of national accounts, the Commission expect to be able to lift most or all of the reservations specific to Luxembourg.

For **The Netherlands**, an important revision of the national accounts, eliminating some of the relative weaknesses, was completed in 1992. A further revision, incorporating notably further improvements to exhaustiveness is underway and is due to be completed in 1999. A study has been completed in response to the only Commission reservation specific to the Netherlands and a small revision to GNP will allow the reservation to be lifted.

In **Portugal**, the main weaknesses of the national accounts system were addressed in a major revision completed in 1994. The revision saw much improved estimates of the contribution of, for example, large parts of the services industries, and led to the previous estimates of GNP being increased by some 15%. Although some further improvements to the Portuguese national accounts will still be necessary, the important work completed already should shortly allow many of the Commission reservations specific to Portugal to be lifted. The remaining reservations specific to

Portugal are expected to lead to further improvements to GNP in 1996, and it is hoped that those reservations can also be lifted then.

In **Spain**, improvements have been made to the treatment of the national lottery and of taxes and subsidies. The Commission's reservation on the Spanish national lottery estimates is being lifted. Work is underway to enable the remaining specific reservations for Spain, and the transversal reservation on taxes and subsidies, to be lifted by 1997.

In **The United Kingdom**, work already completed has enabled the Commission to lift all four of its reservations specific to the United Kingdom estimates of GNP.

Concerning the **new Member States, Iceland and Norway**, Eurostat carried out a first visit to each of the countries during the second half of 1994. Those visits were used to collect some basic information on the sources and methods used in each country, and to guide them in their provision of more detailed information to the Commission. A report on each visit was discussed by the GNP Committee at its meetings in December 1994 or March 1995.

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Annex B to the report to Council and Parliament on GNP Directive

Summary of the improvements made to GNP estimates for the years under reservation

Year		1988				1989				1990				1991			
		1988-I	1988R95	total change	reservation improvements	1989-I	1989R95	total change	reservation improvements	1990-I	1990R95	total change	reservation improvements	1991-I	1991-IV	total change	reservation improvements
<i>Country</i>	<i>Unit</i>																
Belgium	Md BFR	5445	5513	1.25%	0,06%	5952	5991	0,66%	N/A	6352	6345	-0,11%	N/A	6680	6699	0,28%	N/A
Denmark	Md DKR	695	694	-0.14%	0,11%	733	725	-1,09%	0,11%	777	753	-3,09%	0,11%	784	782	-0,26%	0,11%
Germany	Md DM	2122	2108	-0.66%	N/A	2261	2249	-0,53%	N/A	2470	2494	0,97%	N/A	2826	2882	1,98%	0,85%
Greece	Md DR	7390	8997	21.75%	20,70%	8768	10691	21,93%	20,60%	10409	12867	23,61%	20,90%	12813	15726	22,73%	20,70%
Spain	Md PTA	39190	40018	2.11%	0,69%	44597	44945	0,78%	0,64%	49627	49971	0,69%	0,56%	54223	54736	0,95%	0,67%
France	Md FF	5645	5726	1.43%	0,07%	6101	6154	0,87%	0,08%	6467	6479	0,19%	0,03%	6722	6735	0,19%	-0,06%
Ireland	Md IR£	18.8	20	6.38%	3,67%	20.9	22.18	6,12%	3,30%	22.9	24.06	5,07%	3,93%	24.25	25.4	4,74%	3,51%
Italy (LIT)	1000 Md	1072	1084	1.12%	-0,04%	1177	1183	0,51%	N/A	1291	1296	0,39%	N/A	1407	1409	0,14%	N/A
Luxembourg	Md LFR	326	360	10.43%	9,20%	373	404	8,31%	8,85%	397	442	11,34%	9,32%	433	482	11,32%	8,78%
Netherlands	Md HFL	449	454	1.11%	1,56%	473	485	2,54%	1,69%	509	516	1,38%	1,37%	543	542	-0,18%	-0,18%
Portugal	Md ESC	5880	6780	15.31%	15,53%	6994	8004	14,44%	14,71%	8460	9490	12,17%	14,21%	10206	10915	6,95%	10,74%
UK	Md UK£	463	459	-0.86%	-0,10%	511	502	-1,76%	-0,16%	548	540	-1,46%	-0,24%	568	566	-0,35%	-0,25%

19XX-I = first estimate for 19XX

19XXR95 = revised estimate in 1995 for 19XX

N/A = not available

Foreword

The above table shows the changes to the Member States' GNP estimates for the period 1988 to 1991. Some of these changes are the result of ongoing adjustments of GNP. This is not dealt with here. The purpose here is to highlight those changes which reflect improvements as a result of applying Commission decisions or after notification of reservations. The notes which follow clarify the particular type of improvement in each country.

In order to measure the progress achieved by the Member States, Eurostat and the GNP Committee were also keen to assess improvements to the statistical methods and sources used after reservations had been notified, especially when changes in figures are not indicated in sufficient detail.

The period from 1988 to 1991 was selected because it corresponds to the years for which the GNP estimates are supposed to be final and for which reservations have been expressed.

Belgium

For 1988 the overall extent of GNP adjustments directly relating to reservations (0.06%) matches the average rate of correction for the three different ways of calculating GNP. Where output is concerned, these changes (0.13% of total GNP) affect mainly compensation received from the rest of the world (0.19%) and the value added of market services (-0.08%). With regard to income, the improvements (0.16%) concern mainly taxes paid to Belgian enterprises (-0.33%), company profits (0.25%), compensation of employees (0.13%) and dividends received by Belgian firms (0.09%). On the expenditure side, the adjustments (-0.12%) relate wholly to estimates of final consumption.

The other changes for 1988 and those for the years 1989 to 1991 stem primarily from changes in the statistical bases and procedures used, as well as retropolation to these years of new and more detailed data obtained since 1994. Exhaustiveness has been enhanced. However, it is not possible at present to attribute these adjustments to any particular reservation.

Denmark

Denmark has changed its GNP estimates from 1988 to 1991 to take account of the reservations which were notified to the Danish authorities on the subject of water supplies and commercial activities. The impact of the changes for these four years is approximately 0.02% of GNP in the case of water supplies and 0.09% for commercial activities.

It should also be pointed out that, in order to comply with the decision on taxes and subsidies, Denmark withdrew the adjustments for taxes and subsidies which it had introduced in 1991.

Germany

Since 1990 the GNP estimates in Germany have taken into account the country's unification on 3 October of that year. The figures for 1988 and 1989 thus apply to the old Federal Republic, while those for 1990 and 1991 include the new *Länder*.

Germany has adjusted the 1991 estimate for the new *Länder* by some 0.85 %, in response to the reservations which have been notified for these new *Länder*.

Greece

Greece has changed its GNP figures for 1988-1991 as part of the thorough overhaul of its national accounts, which is still ongoing. The impact of the changes over the period amounts to approximately 20.7% of GNP.

Spain

Spain has made changes to its GNP estimates for 1988-1991 in response to the reservations which were notified. These adjustments concern the national lottery (0.36% of GNP), insurance services (-0.21%) and subsidies for educational activities (0.48%). The estimates for the national lottery are final for the 1988-1991 period. The procedure for lifting the reservation concerning the national lottery is under way. On the other hand, the figures for insurance services and education subsidies are still provisional.

France

France has supplied GNP estimates for 1988-1991 which have been revised in the light of the reservations which were notified, with reference to the economic territory, leasing operations, insurance, depreciation of highways and networks, theft of stocks, treatment of inspection and supervision fees paid to the State and payments to the SNCF and the RATP in respect of the *carte orange* season ticket. The adjustments made for all these reservations for 1988-1991 are final and come to 0.07%, 0.08%, 0.03% and -0.06% of GNP respectively. Also, since 1992 France has been transmitting data incorporating the adjustments required for these items. The specific reservations have been lifted.

Ireland

Ireland has adjusted its GNP estimates for 1988-1991 in response to certain reservations which were notified. The adjustments amount to 3.67%, 3.30%, 3.93% and 3.51% of GNP for the four years in question. In the case of 1988, more than two-thirds of the changes concern the gross operating surplus. As for 1989-1991, it is not possible, on the basis of the data which have been supplied, to break down the changes in accordance with the various reservations which were notified. The new estimates are provisional.

Italy

The only change which Italy has made to its national accounts for 1988-1991, as a result of reservations which were notified, is an adjustment of -0.04% of GNP for compensation to employees received from the rest of the world. This adjustment stems from the reservation on the transition from GDP to GNP which the GNP Committee has not yet considered. As the revision of Italy's national accounts is not yet complete, it is currently impossible to ascertain the adjustments to be made.

Luxembourg

As a result of the major revision of its national accounts which was completed in 1994, Luxembourg has adjusted its estimates for the national accounts for 1988 to 1991, with the aim of complying with the reservations which were notified. The adjustments for the period amount to approximately +9% of GNP. They relate mainly to better coverage of services and financial and insurance activities (about 90% of the increase) and, to a lesser extent, to the reappraisal of the market and non-market services of general government.

Netherlands

The Netherlands has adjusted its GNP estimates for 1988-1990 as part of the major revision of the national accounts which was completed in 1992. The changes amount to approximately 1.5% of GNP. The figures for 1991 were estimated using the new base and have not been greatly altered subsequently. Minor adjustments were made to the figures for 1988 to 1991 after the revision of fixed capital consumption which was made possible in 1995 thanks to the availability of new data on investment. This revision may be attributed to the reservation concerning general government and private non-profit institutions.

Portugal

As part of the major overhaul of its national accounts, Portugal has corrected its GNP estimates for 1988-1991. The changes amount to 15.53%, 14.71%, 14.21% and 10.74% of GNP respectively. The figures for 1991 required less adjustment, the reason being that, unlike the previous three years, the initial estimate for that year already included the Azores and Madeira, which together account for about 5% of GNP. Moreover, for the period 1988-1991, the figures for the changes relating to reservation improvements are higher than those for the total change. This is due to the fact that other corrections have led to a decrease in the GNP estimates between 1993 (the year in which the reservation improvements were made) and 1995.

It is not possible, with the data which are currently available, to break down the effect of revision (excluding the Azores and Madeira), i.e. approximately 10%, in accordance with the various reservations which were notified.

United Kingdom

In response to the reservations which were notified, the United Kingdom adjusted its GNP estimates for 1988-1991. The improvements in connection with the reservations (-0.10%, -0.16%, -0.24% and -0.25% of GNP respectively for the four years in question) match the adjustments to property income received from the rest of the world. They relate to the "transversal reservation" on the transition from GDP to GNP. The heading "total change" nevertheless includes some adjustments made on the basis of other reservations. Some of these reservations had a negligible impact on GNP, an example being insurance, for which only 1991 was adjusted (0.08%). In other cases (register of import-export firms, register of leasing companies), it has not been possible to calculate the overall effect on GNP, since the adjustments were made to the input-output tables. For these tables, however, the changes made to the statistical methods after the notification of reservations have proved satisfactory. The new estimates supplied by the United Kingdom for 1988-1991 are final and the specific reservations have been lifted.

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