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the system of national accounts

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# RELATIONSHIP BETWEEN ESSPROS AND THE SYSTEM OF NATIONAL ACCOUNTS

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## 1. INTRODUCTION

Internationally, the System of National Accounts (SNA) is the statistical standard that provides an accounting framework to describe an economy belonging to a region, country or group of countries, its various components and how it relates to other economies. The European System of Accounts (ESA) is effectively a European version of the SNA. It is fully consistent with the SNA in the way that it deals with the different components of national accounts but customised to suit the European situation and data needs.

Within the EU, national accounts have been compiled for a number of years on the basis of SNA 1993 and the equivalent ESA 1995. However, a revised SNA 2008<sup>1</sup> was issued in 2009 and the equivalent revision of ESA – ESA 2010<sup>2</sup> – was adopted in March 2013 and implemented by Member States when delivering data from September 2014 onwards<sup>3</sup>.

The obligation for Member States to compile and transmit national accounts data in accordance with ESA 2010 is set out in EU Regulation 549/2013<sup>4</sup>. The regulation is supported by the ESA 2010 transmission programme<sup>5</sup>, which details the timeframe for delivery, specifies the accounts, tables and levels of breakdown required and the extent to which different elements of the data are compulsory or voluntary.

The central System of National Accounts provides an accounting framework that serves many important data needs but is not always suitable for in-depth analysis of specific areas. A number of satellite accounts therefore complement the main framework by focusing in more detail on particular domains. These are implemented in the context of national accounts but are more flexible in that they allow concepts, definitions, accounting rules and classifications to be changed to suit the domain and thereby facilitate more specific interpretation and analysis of the data. An illustration of the satellite account concept is provided in chapter 22 of the ESA manual<sup>2</sup>.

The European System of integrated Social PROtection Statistics (ESSPROS) is one such satellite account. While the concepts, definitions, accounting and classification rules in the ESSPROS Manual<sup>6</sup> are in general harmonised with those used in national accounts, it offers an accounting framework that provides a more detailed multidimensional overview of social protection describing the size and composition of social protection benefits, their financing and the administrative costs associated with them.

There is therefore a significant overlap in the scope of social protection covered by National Accounts and by ESSPROS. While the coverage and specifications of the data which is collected and disseminated in respect to this concept differ considerably there is much potential for establishing links and comparing the data of the two systems. For instance, many of the main aggregates of expenditure on social protection benefits and social contributions in ESSPROS can be compared with similar aggregates from National Accounts.

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<sup>1</sup> The SNA 2008 methodology: <http://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

<sup>2</sup> The ESA 2010 methodology: [http://epp.eurostat.ec.europa.eu/portal/page/portal/esa\\_2010/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction)

<sup>3</sup> See <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0079+0+DOC+XML+V0//EN>

<sup>4</sup> Regulation (EU) no 549/2013 on the European system of national and regional accounts in the European Union. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:174:0001:0727:EN:PDF>

<sup>5</sup> See <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-01-13-429-3A-C>

<sup>6</sup> ESSPROS Manual and user guidelines – 2012 edition:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/publication?p\\_product\\_code=KS-RA-12-014](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-RA-12-014)

Identifying both the commonalities and differences between ESSPROS and national accounts is essential to understand both how ESSPROS fulfils the satellite account concept and the relationship between the two sets of data. From a data producer perspective, detailing links between different elements of data can contribute to improving the quality of both ESSPROS and national accounts by providing sources with which to validate data or complete missing data in either direction. From a user perspective, data from both ESSPROS and national accounts are disseminated publically and data on receipts/resources provide useful information on the extent to which data can be compared.

A first comparative study on ESSPROS (1996 manual) and national accounts (ESA 95) was undertaken by Eurostat in 2003. This identified general differences, detailed specific theoretical links and included a practical exercise linking the two sets of data for the Netherlands.

Subsequently the ESSPROS and ESA methodologies have both been revised, though only the latter has any significant impact on the links between the two systems. For example, some of the detailed classifications related to social contributions and benefits used to establish links in the previous study were amended in the 2010 revision. As a consequence the results of the 2003 study are no longer applicable.

This document reviews the differences, similarities and potential links between national accounts and ESSPROS based on the latest revisions of their respective methodologies (ESA 2010 and ESSPROS 2012<sup>7</sup>). Theoretically links between the two systems may be established in a number of ways. However, differences in the interpretation of their respective methodologies and in the approaches taken to collect the data need to be taken into account to see where links can be made in practice and to identify possible discrepancies that might arise. For this purpose the Eurostat has been assisted by the Netherlands and Italy where the links between ESSPROS and National Accounts have already been analysed and production synergies established and data are already aligned, where relevant. Where possible practical examples from these countries are given to illustrate the extent to which theory translates into practice.

## **2. DIFFERENCES BETWEEN ESSPROS AND NATIONAL ACCOUNTS**

For the large part the concepts, definitions, accounting rules and classification rules in the ESSPROS Manual are harmonised with national accounts. However, there are a number of important differences:

### **2.1. Scope of social protection**

There are number of differences in the overall scope of social protection covered by the two statistical systems:

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<sup>7</sup> All references to sections of the ESSPROS manual in this document refer to the *“ESSPROS Manual and user guidelines - 2012 edition”* and not the *“ESSPROS Manual - 2011 edition”*.

### 2.1.1. Risk and needs: Education

ESSPROS provides a definition of *social protection* which delimits the scope of the core system. ESA defines *social benefits* to delimit only a sub-section of the data in national accounts. The two definitions are presented in Table 1.

**Table 1: ESSPROS definition of Social protection and ESA definition of Social benefits**

ESSPROS 2012	ESA 2010
Part 1, Section 2.2, §16, p10	D.6, §4.83-4.84, p107
<p><i>Social protection</i> encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is, by convention, as follows:</p> <ol style="list-style-type: none"> <li>1. Sickness/Health care</li> <li>2. Disability</li> <li>3. Old age</li> <li>4. Survivors</li> <li>5. Family/children</li> <li>6. Unemployment</li> <li>7. Housing</li> <li>8. Social exclusion not elsewhere classified.</li> </ol>	<p><i>Social benefits</i> are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and NPISHs; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs. The list of risks or needs which may give rise to social benefits is as follows:</p> <ol style="list-style-type: none"> <li>(a) sickness;</li> <li>(b) invalidity, disability;</li> <li>(c) occupational accident or disease;</li> <li>(d) old age;</li> <li>(e) survivors;</li> <li>(f) maternity;</li> <li>(g) family;</li> <li>(h) promotion of employment;</li> <li>(i) unemployment;</li> <li>(j) housing;</li> <li>(k) education;</li> <li>(l) general neediness.</li> </ol> <p>In the case of housing, payments made by public authorities to tenants in order to reduce their rents are social benefits, with the exception of special benefits paid by public authorities in their capacity as employers.</p>

Despite some differences in the terms used, particularly among the risks and needs defined, the concepts are more or less the same<sup>8</sup> with one exception. ESA includes *education* as a risk/need while ESSPROS does not.

In fact the ESSPROS methodology specifically states that “*The risks or needs of social protection refer to the ESSPROS functions that are comprehensive, but do not include education unless it is a support to indigent families with children*” (ESSPROS, Part 1, Section 1, §9, p6). Education benefits provided solely to indigent families, after a means-test, can be interpreted as a means of redistributing income in favour of those who have insufficient resources rather than providing free access to education and are therefore recorded under the Family/Children function in ESSPROS (see ESSPROS, Part 2, Section 6.3, §61B, p64).

<sup>8</sup> Apart from Education, the list of risks and needs in ESA 2010 §4.84 seems to correspond to the functions of the ESSPROS Manual 1981, as amended by the Working Group on Social Protection Statistics, until June 1986.

As a result, national accounts records social expenditure related to education while ESSPROS only provides partial coverage of these expenditures under the Family/Children function where risks that would be associated with education overlap those of that function. In practice the extent to which this causes a differences may vary (see Box 1).

### **Box 1: Practical examples - Education related benefits**

#### **Italy:**

Education related benefits provided solely to indigent families after a means-test are reported in National Accounts as *Social benefits other than social transfers in kind* (D.62) and in ESSPROS as *Social protection benefits* in the *Family/children* function (Scheme 4 – 1152114 – Other periodic cash benefit).

There are other education related benefits reported in National Accounts as *Social benefits* but excluded from ESSPROS which can result in differences between the two systems. In 2012 these amounted to 57 692 million Euro which is approximately 13% of the total value of social protection benefits reported in ESSPROS.

#### **The Netherlands:**

There are a number of education related benefits which are reported both in National Accounts as *Social benefits* and in ESSPROS as *Social protection benefits*. However, while these include an element associated with education, they are primarily related to other risks and needs within the scope of social protection in ESSPROS.

In addition, there are a number of education related benefits reported in National Accounts as *Social benefits* but excluded from ESSPROS which can result in differences between the two systems:

- Scholarships (Studiebeurzen)
- Academic contributions (Bijdragen academische ziekenhuizen)
- Other (Overige RB, Rest social assistance)

In 2010 the total expenditure on these benefits amounted to 2 005 million Euro which is approximately 1% of the total value of social protection benefits reported in ESSPROS.

While there is an identifiable difference in the risks and needs which may give rise to social benefits in terms of education, it is also worth noting that ESA (unlike ESSPROS) does not give any further illustration of what each of the different risks and needs listed in the definition of *social benefits* encompass. The lack of such clarification could lead to differences in interpretation of what should or should not be covered (see Box 2).

### **Box 2: Practical examples – Definition of risks and needs in National Accounts**

#### **Italy:**

The risks and needs identified as giving rise to *Social benefits* in National Accounts (as well as the borderline between individual and collective services) are delimited using a direct mapping of the risks and needs to classifications defined in the classification of functions of government (COFOG) for which there are more detailed definitions of various types of social benefits.

#### **The Netherlands:**

The risks and needs identified as giving rise to *Social benefits* in National Accounts are delimited using the ESSPROS classifications with the addition of a separate function for Education. COFOG is not used for this purpose.

### 2.1.2. Capital transfers

ESSPROS records receipts and expenditures of social protection schemes in the form of “*distributive transactions, whether current or capital*” and “*administration costs charged to the scheme*” (ESSPROS, Part 1, Section 3.2, §36, p15) and defines capital transfers as transfers which “*involve the acquisition or disposal of an asset, or assets, by at least one of the parties to the transaction*” (ESSPROS, Part 1, section 5.2, §77B-footnote, p27).

In practice, however, it is unclear what capital transfers might actually be included. The definition refers explicitly to acquisition or disposal of an asset but the ESSPROS manual then informs that the valuation of benefits in kind produced by non-market producers should include only depreciation of fixed capital (ESSPROS, Part 1, section 8.3, §124, p42) and that capital from a scheme or from government used to buy, for example, a retirement institution or hospital should not be included (ESSPROS, Part 1, section 8.3, §127, p42) and, instead, only the amortisation (depreciation of fixed capital) associated with such transfers should be included. This would seem to rule out the possibility of capital transfers being reported as part of the value of social protection benefits.

The ESSPROS manual specifically states that *general government contributions* on the receipts side of ESSPROS includes both current and capital transfers (ESSPROS, Part 1, section 5.2, §77B, p27). *General government contributions* cover cases where government transfers a lump-sum in order to cover deficit or important costs of a scheme. However, the manual also specifically states that government payments to market producers and to other government institutions or non-profit institutions serving households supporting social protection schemes to finance capital formation are not covered (ESSPROS, Annex VII, p206). This is somewhat contradictory but seemingly suggests that capital transfers are not included in ESSPROS as part of the value of social protection receipts.

In national accounts the definition of social benefits (ESA, D.6, §4.85-4.86, p108) makes clear that “*current and lump-sum transfers*” are included but capital transfers are not specifically mentioned. *Distributive transactions* in national accounts (ESA, D, §4.01, p87) include both current and capital transfers and *social benefits* (ESA, D.6, §4.85-4.86, p108) are a sub-category of *distributive transaction*. However, there is completely a separate category for *capital transfers* (ESA, D.9, §4.145, p119). On this basis it would seem that capital transfers are not covered (as social benefits) in national accounts.

There is, therefore, a potential difference between the two systems with capital transfers included in ESSPROS but not in national accounts. However, as it is unclear if ESSPROS actually includes any capital transfers according to the strict definition of the term and amortisation (depreciation of the fixed capital) associated with capital transfers can be interpreted as lump-sum transfers there may in practice be no difference between the two systems in terms of the coverage of current and capital transfers (see Box 3).

#### Box 3: Practical examples – Capital transfers

**Italy:** Data for ESSPROS and social contributions and benefits (D.6) in National Accounts only include current expenditures. Any costs associated with fixed capital that are reported are limited to the consumption of fixed capital (i.e. amortization). In National Accounts capital transfers are reported separately under *capital transfers* (D.9).

**The Netherlands:** The most recent data for ESSPROS and social contributions and benefits (D.6) in National Accounts only include current expenditures. Any costs associated with fixed capital that are reported are limited to the consumption of fixed capital (i.e. amortization). In National Accounts

capital transfers are reported separately under *capital transfers* (D.9).

Until 2002 there was a benefit included in ESSPROS targeted to general practitioners called Goodwill funds (Scheme 9 – 1111121). This was intended enable to reduce the cost of acquiring a new practice with condition that customer tariffs were to be reduced. In National Accounts this was reported as a capital transfer (D.9). In ESSPROS this was reported as a social protection benefit paid in cash because its purpose was considered social, i.e. reducing the customer's tariffs and providing access to health care for all. This closely resembles investments grants paid to social housing associations, since these enable accessible living for lower-wage income households.

### 2.1.3. Payable tax credits

Tax credits provide tax relief through an exceptional reduction in the tax liability of the tax unit. There are two forms of tax credit – non-payable tax credits and payable tax credits. Non-payable tax credits are limited in value to the value of the tax liability of the recipients. As such, they can only ever be granted to taxpayers with a non-zero tax liability. Meanwhile, payable tax credits are not limited in this way and their value can exceed the value of any tax liability, including a liability of zero. Payable tax credits can therefore be granted to non-taxpayers. The amount of any payable tax credit that exceeds the tax liability is paid directly to the beneficiary (in cash).

In principle, payable tax credits can be partitioned into amounts used to offset tax liabilities and amounts exceeding tax liabilities (if any) which are paid directly to recipients as social benefits. The ESA 2010 introduces a new treatment of payable tax credits and requires the total value of payable tax credits to be recorded as a tax expense (i.e. as a social benefit) (ESA, §20.168, p440).

The current ESSPROS manual makes no specific reference to payable tax credits but in principle amounts paid in cash (excess of tax liability) should be considered as cash benefits and included in the core system (gross social protection benefits) while the amounts offsetting tax liabilities should be taken into account only in the module on net social protection benefits (at least to the extent that the amounts concerned offset taxes paid on cash benefits). However, in practice, it is known that the interpretation of whether the cash of payable tax credits should be included in the ESSPROS core system varies between countries<sup>9</sup>. There are therefore inconsistencies within ESSPROS as well as a clear difference between the current ESSPROS methodology and national accounts. It has already been proposed that ESSPROS considers adopting the national accounts approach to the treatment of payable tax credits<sup>10</sup>. Some countries have already done so (see Box 4).

#### Box 4: Practical examples – Payable tax credits

##### Italy:

There are currently two payable tax credits in Italy:

- Means-tested child tax credit (for more than 3 dependent children)
- Means-tested tax credit for renting the main residence

<sup>9</sup> The differences in interpretation derive, at least in part, from guidance in the 1996 ESSPROS manual which allowed tax reductions to be considered as cash benefits under certain conditions (Part 1, §118). The 2008 and 2012 versions of the manual place all consideration of tax breaks in the context of the module on net benefits and does not mention tax credits payable in cash.

[http://ec.europa.eu/eurostat/ramon/statmanuals/files/ESSPROS\\_manual\\_1996\\_EN.pdf](http://ec.europa.eu/eurostat/ramon/statmanuals/files/ESSPROS_manual_1996_EN.pdf)

<sup>10</sup> See "Tax credits in National Accounts". Available on CIRCABC: Doc SP/2011/07/EN.

In line with ESA 2010 the full value of payable tax credits are reported in National Accounts as *social benefits* and these will also be reported in full in ESSPROS as *social protection benefits*. Their classifications are as follows:

Payable tax credit	National Accounts	ESSPROS
Means-tested child tax credit (for more than 3 dependent children)	Social benefits other than social transfers in kind (D.62)	Family/Children function – Periodic cash benefit - Other cash periodic benefits means-tested (1152114)
Means-tested tax credit for renting the main house	Social benefits other than social transfers in kind (D.62) However, this could be changed to Social transfers in kind (D.63) in future (see below)	Housing function – Benefit in kind - Other rent benefits means-tested (1172212)

There are complications associated with classifying housing related payable tax credits in National Accounts in a way that is consistent with ESSPROS. ESA 2010 does not specify the expenditure category to be used for payable tax credits. The “Manual on government deficit and debt: implementation of ESA 2010”<sup>11</sup> (p73) provides some guidance on this but the classification may vary. The August 2014 revision of this manual noted that these could be classified as *subsidies* (D.3), *social benefits other than social transfers in kind* (D.62), *miscellaneous current transfers* (D.75), *investment grants* (D.92) or *other capital transfers* (D.99) but not as *social transfers in kind* (D.63). As a result housing related payable tax credits were reported under D.62. ESSPROS does not allow this possibility as only benefits in kind can be reported for the housing function. However, the September revision of the manual further clarified that the list of classification options presented is not exhaustive allowing the classification D.63. The data may be adjusted to align the classification of this payable tax credit in National Accounts and ESSPROS.

**The Netherlands:** Payable tax credits do not exist in the Netherlands.

#### 2.1.4. Transfers in kind without a social purpose

In national accounts *social transfers in kind* (ESA, D.63, §4.108, p112) includes some transfers which the ESA methodology describes as being outside the scope of social risks or needs. More specifically, *Social transfers in kind – government and NPISHs non-market production* (ESA, D.631, §4.109-4.110, p113) includes transfers related to government provision of recreational, cultural or sport services for free or at prices which are not economically significant.

In principle such transfers would not be covered in ESSPROS, thereby implying a potential difference in coverage compared to ESA. However, it is also possible that the provision of such services targeted at particular groups (e.g. older or disabled persons) might be considered as a means of promoting social inclusion and therefore covered in the social exclusion function in ESSPROS. In other words there is a potential difference here but the extent to which it exists in practice could vary (see Box 5).

#### Box 5: Practical examples – Transfers without a social purpose

**Italy:** Some transfers without a social purpose are included under social transfers in kind – general government and NPISHs non-market production (D.631) in National Accounts but not covered in ESSPROS. The value of these benefits in kind amounted to 10 042 million Euro in 2012 which is approximately 2% of the value of total social protection benefits reported in ESSPROS.

**The Netherlands:** There are no transfers related to government provision of recreational, cultural or

<sup>11</sup> See <http://ec.europa.eu/eurostat/documents/3859598/5937189/KS-GQ-14-010-EN.PDF>

sport services for free or at prices which are not economically significant reported as social protection benefits in ESSPROS or as social benefits in National Accounts.

→ In general, there is significant overlap in the scope of social protection in ESSPROS and social benefits in ESA. For the large part the two are consistent. However, differences may arise due to the following:

- Benefits that do not meet the ESSPROS definition of social protection may be reported under *social transfers in kind — general government and NPISHs non-market production (D.631)* in national accounts. These include the provision of recreational, cultural or sport services for free or at prices which are not economically significant.
- Education related benefits are reported in national accounts but these are only included in ESSPROS under the Family/Children function if provided solely to indigent families after a means-test.
- Payable tax credits are reported in full in national accounts but their current treatment in ESSPROS is unclear.
- Transfers in capital may be reported as social protection benefits in ESSPROS but this is not the case for social benefits in national accounts. However, it is unclear what capital transfers can be reported in ESSPROS.

→ On this basis, it is expected that the scope of social benefits used in national accounts could be wider than social protection used in ESSPROS. However, in some cases the differences may be negligible. Indeed, examples from the Netherlands and Italy where the statistics systems are fully coordinated demonstrate only small differences.

## 2.2. Organisation of the statistical system

There are several differences in the organisation of the two statistical systems.

### 2.2.1. Statistical unit

The statistical unit of national accounts is the *institutional unit* whilst in ESSPROS it is the *social protection scheme*. See definitions in Table 2.

**Table 2: ESSPROS definition of a social protection scheme and ESA definition of an institutional unit**

ESSPROS 2012	ESA 2010
Section 1.4.1 §42, p17	Chapter 2, §2.12, p27
<i>A <u>social protection scheme</u> is a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing.</i>	<i>An <u>institutional unit</u> is an economic entity characterised by decision-making autonomy in the exercise of its principal function. A resident unit is regarded as constituting an institutional unit in the economic territory where it has its centre of predominant economic interest if it has decision-making autonomy and either keeps a complete set of accounts, or is able to compile a complete set of accounts.</i>
<i>This definition calls for further clarification: (i) Social protection schemes should at all times meet the condition that it must be possible to draw up a separate account of receipts and expenditures.</i>	

<p>(ii) Preferably, social protection schemes are chosen in such a way that they provide protection against a single risk or need and cover a single specific group of beneficiaries.</p>	<p>To have autonomy of decision in respect of its principal function, an entity must be:</p> <ul style="list-style-type: none"> <li>(a) entitled to own goods and assets in its own right; it will be able to exchange the ownership of goods and assets in transactions with other institutional units;</li> <li>(b) able to take economic decisions and engage in economic activities for which it is responsible and accountable at law;</li> <li>(c) able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts; and</li> <li>(d) able to draw up a complete set of accounts, comprised of accounting records covering all its transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities.</li> </ul>
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In national accounts social protection related transactions are therefore reported in respect of the institutional units associated to them. Meanwhile, in ESSPROS such transactions are reported according to the social protection schemes to which they correspond.

On the one hand, institutional units can support multiple social protection schemes when they provide multiple types of social benefits governed by different bodies of rules. On the other, a single social protection scheme can be supported by several institutional units, where each is responsible for, say, a specific geographic region, group of enterprises or category of workers (see ESSPROS, Part 1, Section 1.4.1, §43, p17). The concepts of institutions and schemes may coincide only in the case that the provision and financing of benefits provided by an institutional unit are governed by a single body of rules.<sup>12</sup> Whilst there may well be examples of such coincidence in any given country, it is unlikely to occur across the board. Government organisations tend to provide a range of different benefits governed by separate bodies of rules.

In national accounts institutional units are grouped by sector and sub-sector (see ESA, Chapter 2, §2.31-2.143, p31-48). In ESSPROS it is typically possible to identify the sectors or sub-sector in which institution(s) responsible for managing schemes operate and thereby identify where the transactions associated with these should be recorded in national accounts (see Box 6).

National accounts does use the concept of *social insurance scheme* which encompasses *social security schemes* and *employment-related social insurance schemes other than social security* (ESA, Chapter 17, §17.02, p363) in order to assist the classification of transactions. For example, all social security schemes are run by social security funds (S.1414) and the associated cash benefits are classified as *social security benefits in cash* (D.621). The concept of social protection scheme used in ESSPROS differs from that of *social insurance scheme* used in ESA 2010 because it also encompasses non-contributory social protection schemes providing social assistance. In ESA *social assistance* is treated as a separate concept.

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<sup>12</sup> However, there may be cases of one-to-one correspondence between scheme and institutional unit, where the institutional unit carries out additional activities (See ESSPROS Manual, Part I, § 102C (iv)) and does not coincide with the scheme.

**Box 6: Practical examples – Relationship between statistical unit of ESSPROS and that of National Accounts**

**Italy:**

The breakdown of schemes applied in ESSPROS is generally based on ability to breakdown data. This is typically limited by the available breakdowns of data on receipts and transfers between schemes.

The association between institutional units in national accounts and schemes in ESSPROS can be one-to-one, one-to-many or many-to-one. However, an institutional sector can typically be identified for each ESSPROS scheme (see Table 3). Furthermore, each ESSPROS scheme can be identified as belonging to the National Accounts concepts of either social security schemes, employment-related social insurance schemes other than social security and social assistance.

**The Netherlands:**

The breakdown of schemes applied in ESSPROS generally adheres to the definition of a social protection scheme. There is only one scheme (Scheme 26 - *Overige sociale voorzieningen/Rest social assistance*) which in groups together several smaller schemes because it covers small temporary schemes for which separate reporting would not be useful or practical.

An institutional sector can typically be identified for each ESSPROS scheme (see Table 3). Furthermore, each ESSPROS scheme can be identified as belonging to the National Accounts concepts of either social security schemes, employment-related social insurance schemes other than social security and social assistance.

**Table 3: ESSPROS schemes by ESA 2010 sector**

ESA2010 Sector	IT Schemes	NL Schemes
Non-financial corporations (S.11) + Financial corporations (S.12)	18, 19	-
Financial corporations (S.12)	22	28, 29, 30, 31, 32, 33, 34, 35*, 36*, 37*, 38*, 39
General government (S.13)	20, 21	26, 40, 41, 42*, 43*, 44, 45, 46*, 47, 48, 49*, 50, 51, 52, 59, 60, 61*, 66
Central government (S.1311)	24	11, 12, 13, 14, 15, 16*, 18*, 19, 23, 24, 55, 56*, 62, 65, 67, 69, 71
Local government (S.1313)	25	17*, 20, 21, 22*, 25, 68, 72
Central government (S.1311) + Local government (S.1313)	1*, 2	27*
Social security funds (S.1314)	3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 23, 27	1, 2, 3*, 4, 5, 6, 7*, 8*, 9*, 10*, 53*, 54*, 58, 63, 64, 70
Non-profit institutions serving households (S.15)	26	-

\* Inactive schemes

**→ The statistical units of social protection schemes and institutional units used in ESSPROS and national accounts respectively are not comparable. However, it is usually possible to identify the sector of institutions operating schemes in ESSPROS in order to find a correspondence with institutions providing social benefits by institutional sector in national accounts.**

**2.2.2. Accounting structure**

The accounting structures used in ESSPROS and national accounts are completely different. In order to be able to establish links between the two systems it is important to have a general understanding of these.

ESSPROS provides a single set of accounts for the reporting of social protection related transactions, which is summarised in section 3.3 of the ESSPROS manual (p14). As ESSPROS focuses solely on social protection, transactions are reported in far more detail than in national accounts, particularly in relation to expenditure on social benefits.

National accounts is built around a series of interconnected macroeconomic accounts based on a set of internationally agreed concepts, definitions, classifications and accounting rules. The accounts are designed to describe the economic cycle from production and generation of income through to final consumption and are organised in a sequence of current accounts, accumulation accounts and balance sheets (see ESA, Chapter 8, p193). The sequence of accounts applies to the total economy and to each institutional sector/subsector.

None of the accounts in national accounts are intended to specifically focus on social protection. Instead social protection related transactions are reported under various different classifications, in different accounts, and sometimes together with non-social protection related transactions.

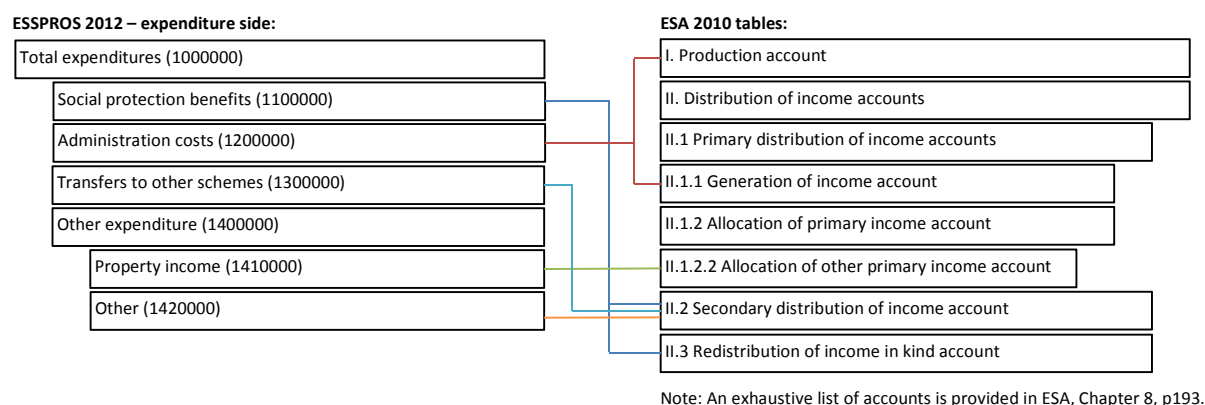
National accounts includes one classification scheme focused on transactions associated with social protection - *social contributions and benefits* (D.6, p107). This classification is used in several accounts and covers a large portion of social protection related receipts (i.e. social contributions) and expenditure (i.e. social protection benefits). For other transactions reported in ESSPROS there exist two scenarios. A first possibility is that they cannot be so clearly identified in national accounts as they are included under classifications where the scope is wider than that applicable in ESSPROS. In this case a particular sub-set of such transactions may be identified by focusing on a particular institutional sector (i.e. that for social security funds). A second possibility is that they are not fully covered in national accounts because they are cancelled out through balancing. This is the case for ESSPROS transactions reported as *Transfers to other schemes* (1300000) and *Transfers from other schemes* (2300000) which include *re-routed contributions* to and from other schemes. As the data are reported according to institutional sector rather than scheme, transfers between schemes within an institutional sector are not reported.

Table 4 summarises, at a very general level, the accounts and classifications under which ESSPROS transactions are reported in the national accounts and whether these transactions can, as a whole, be distinguished from other non-social protection related transactions. The links identified are then illustrated in Figure 1 for the expenditure side of ESSPROS and Figure 2 for receipts. Note that whilst it is possible to identify links at an aggregate level, further breakdowns may not always correspond due to differences in the definitions used in each system.

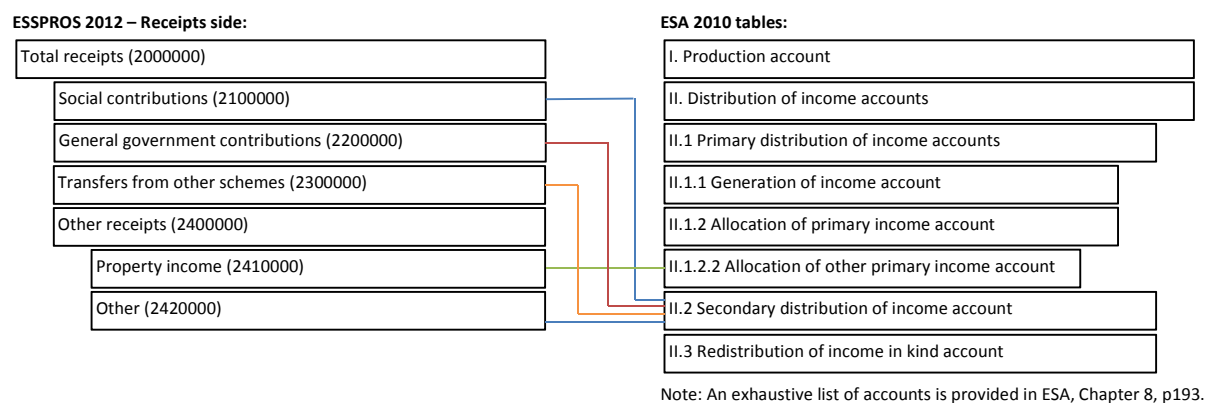
**Table 4: Reporting of ESSPROS transactions in the national accounts framework**

ESSPROS	National accounts	Identifiable in national accounts?
<b>Expenditure</b>		
Social protection benefits (1100000)	<i>Social benefits other than social transfers in kind</i> (D.62) under uses in the secondary distribution of income account. + <i>Social transfers in kind</i> (D.63) under uses in the redistribution of income in kind account.	Yes, total expenditure on social protection benefits can be identified in national accounts. However, due to differences in scope of social protection these may not correspond directly to that in ESSPROS.
Administration costs (1200000)	Part of <i>Intermediate consumption</i> (P.2) under uses in the production account + <i>Consumption of fixed capital</i> (P.51c) under uses in the production account + <i>Compensation of employees</i> (D.1) under uses in the generation of income account + <i>Other taxes on production</i> (D.29) under uses in the generation of income accounts - <i>Other subsidies on production</i> (D.39) under uses in the generation of income accounts	No, total social protection related administration costs are included along with other costs and cannot be separately identified.
Transfers to other schemes (1300000)	Part of <i>Other current transfers</i> (D.7) under uses in the secondary distribution of income account.	No, some social protection related transfers to others schemes are included along with other transfers and cannot be separately identified but others are not reported.
Property income (1410000)	Part of <i>Property income</i> (D.4) under uses in the secondary distribution of income account.	No, total social protection related property income are included along with other property income and cannot be separately identified.
Other (1420000)	Part of <i>Other current transfers</i> (D.7) under uses in the secondary distribution of income account.	No, total social protection related other expenditure are included along with other expenditures and cannot be separately identified.
<b>Receipts</b>		
Social contributions (2100000)	<i>Employers' actual social contributions</i> (D.611) under resources in the secondary distribution of income account + <i>Employers' imputed social contributions</i> (D.612) under resources in the secondary distribution of income account + <i>Households' actual social contributions</i> (D.613) under resources in the secondary distribution of income account + <i>Households' social contribution supplements</i> (D.614) under resources in the secondary distribution of income account	Yes, total receipts for social contributions can be identified in national accounts.
General government contributions (2200000)	Part of <i>Other current transfers</i> (D.7) under resources in the secondary distribution of income account.	No, total social protection related general government contributions are included along with other transfers and cannot be separately identified.
Transfers from other schemes (2300000)	Part of <i>Other current transfers</i> (D.7) under resources in the secondary distribution of income account.	No, some social protection related transfers from other schemes are included along with other transfers and cannot be separately identified but others are not reported.
Property income (2410000)	Part of <i>Property income</i> (D.4) under resources in the allocation of other primary income account.	No, total social protection related property income are included along with other property income and cannot be separately identified.
Other (2420000)	Part of <i>Other current transfers</i> (D.7) under resources in the secondary distribution of income account.	No, total social protection related other receipts are included along with other expenditures and cannot be separately identified.

**Figure 1: Links between ESSPROS 2012 Expenditure and ESA 2010 tables**



**Figure 2: Links between ESSPROS 2012 Receipts and ESA 2010 tables**



Both National Accounts and ESSPROS require the reporting of data on transfers on accruals basis so there should be no difference between the two statistical systems in this regard. However, in practice the collection of data on this basis can be problematic as the data may not always be available. It is not uncommon for administrative sources from which data on social protection derive to be reported on cash basis. Where accruals data are not directly available it is expected that estimations will be made where possible (possibly using data reported on a cash basis). However, in some cases it may be the case that, for practical reasons, data on a cash basis are reported. A difference may therefore arise between ESSPROS and National Accounts if the data are constructed using different sources (that report data on a different basis) and estimations methods are used. However, if the data production processes of two systems are aligned there will be no difference (see Box 7).

**Box 7: Practical examples - Accounting basis**

**Italy and the Netherlands:**

Data for National accounts and ESSPROS are, where possible, reported on an accruals basis. In the cases where source data are only available on a cash basis these are adjusted (where possible). Only in exception cases where this is not possible is data reported on a cash basis. Generally, the sources and methods of estimation used to provide the data for both statistical systems are aligned so no differences can derive from differences in reporting basis.

### 2.2.2.1. Social benefits

Social benefits in ESSPROS are broken down by function (type of risk) and by type (the form in which the protection is given). The breakdown by type of benefit distinguishes between benefits that are means-tested or non means-tested, benefits in cash or in kind and then identifies detailed types of benefits (i.e. death grants, care allowance...etc.). A detailed description of these is provided in the ESSPROS Manual (see ESSPROS, Part 2, p48).

The accounting structure of national accounts does not include items which allow social benefits for the whole economy (S.1) to be broken down by function and only enables a limited breakdown by type. There is differentiation between *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63) but there is, in general, no breakdown by detailed type of benefit as used in ESSPROS. There is no formal distinction between means-tested and non means-tested benefits, even if means-testing is implicit in some kinds of benefits – i.e. social assistance.

#### ***Breakdown of social benefits by function of social protection***

In ESSPROS all expenditure on social protection benefits, irrespective of the sector, is broken down between eight different functions corresponding to the risks and needs identified in the ESSPROS definition of social protection (ESSPROS, Part 1, Section 2.2, §16, p10).

At the all sectors level, national accounts do not make any breakdown of social benefits by type of risk/need. However, in the general government sector accounts ESA applies a breakdown of expenditure (including social benefits) according to the classification of functions of government (COFOG) which can be used to distinguish the areas of risk/need being addressed. A theoretical mapping between ESSPROS functions and COFOG categories is presented later in the document under section 4.3.

#### ***Breakdown of social benefits between benefits in kind and benefits in cash***

In national accounts there is a clear breakdown between *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63). However, this does not directly correspond to the breakdown between benefits in cash (1101100 and 1102100) and benefits in kind (1101200 and 1102200) applied in ESSPROS because of several methodological differences.

In national accounts all benefits granted by social security funds and all social assistance benefits provided to, or received from, the rest of the world are treated as cash benefits. “*There are no social transfers in kind with the rest of the world (they are registered in D.62 social benefits other than social transfers in kind)*” (ESA, Chapter 4, §4.111, p113). ESSPROS does not follow this convention so this can result in differences (see Box 8).

#### **Box 8: Practical examples - Benefits provided to or received from the rest of the world**

##### **Italy:**

No information available.

##### **The Netherlands:**

In National Accounts compiled according to ESA 2010 transfers in kind with the rest of the world are reported as *social benefits other than social transfers in kind* (D.62). For example, in the Netherlands the CVZ (College voor Zorgverzekeringen) provides, according to the AWBZ (Algemene wet bijzondere ziektekosten/Exceptional Medical Expenses Act), health care abroad. In National Accounts these are both reported as *social benefits other than social transfers in kind* (D.62) but in ESSPROS

these are reported, by purpose, as benefits in kind (Scheme 4).

Furthermore, the definition of *social transfers in kind* (ESA, D.63, Chapter 4, §4.108, p112) in national accounts limits benefits in kind to those provided by *government units and non-profit institutions serving households (NPISHs)* and there is evidence to suggest that the use of this classification is limited to benefits which related to *social security schemes or social assistance* (see Box 9). It therefore excludes any benefits in kind provided by *corporations* or which derive from *employment-related social insurance schemes other than social security*. In contrast benefits in kind in ESSPROS are not defined by the institutional unit which provides them and are instead granted by any form of protection scheme. However, it is much less common for *corporations* or *employment-related social insurance schemes other than social security* to be reported to provide benefits in kinds. The reason for this is that any expenditure of an employer which benefit its employees that can be regarded as compensation for work, is not considered a social protection benefit in ESSPROS (ESSPROS, Part 1, Section 2.3.4, §24A, p12) or a social benefit in National Accounts (ESA, Chapter 4, §4.03-4.07, p87-89; see also §4.104).

#### **Box 9: Practical examples - Benefits in kind provided by other employment-related social insurance schemes**

##### **Italy:**

In Italy there is a scheme in ESSPROS which can be considered an *other employment-related social insurance scheme* and which provides benefits recorded as benefits in kind (Scheme 19 - 1152204). These benefits relate the “reimbursement of the expenditure incurred by the insured person for buying specified good and services in favour of their dependants”. The expenditure for these amounted to 4 307 million Euro in 2012 which represents 3.7% of total expenditure on benefits in kind (116 356.00 million Euro) and approximately 1% of total expenditure on social protection benefits.

##### **The Netherlands:**

*Other employment-related social insurance schemes* may provide benefits in kind. However, these are reported in ESSPROS as benefits in cash and in National accounts as *social benefits other than social transfers in kind* (D.62) so there is no difference between the two systems in this regard.

In ESSPROS housing benefits that are paid in cash are classified in the housing function as benefits in kind because they are intended to help individuals meet the costs of housing and are therefore by definition certified expenditures (ESSPROS, Part 2, Section 8.1, §76, p69). However, national accounts does not follow this convention and benefits for the purpose of housing may be classified as either *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63). In can result in differences (see Box 10).

#### **Box 10: Practical examples – Reporting of housing benefits**

##### **Italy:**

There is only a housing benefit in Italy. This is means-tested payable tax credit for renting the main residence payable tax credit. In ESSPROS this is classified as a *benefit in kind* (Scheme 25 - 1172212) but in national accounts this is reported under *social benefits other than social transfers in kind* (D.62). This amounted to 358 million Euro in 2011 which is less than 1% of the value of total social protection benefits reported in ESSPROS.

However, new guidance on reporting of payable tax credits National accounts has been made available and on the basis of this it will be reported as *social transfers in kind* (D.63) thus removing

the discrepancy between ESSPROS and National Accounts (see Box 4 for further information).

### **The Netherlands:**

There are two housing benefits in the Netherlands:

- HIS/IHT: These are social benefits provided to people with low income to enable them to the rent of social housing by lowering the rents. These are reported as *benefits in kind* (Scheme 23 – 1172211) in ESSPROS and as *social transfers in kind* (D.63) in National accounts. No difference can derive from this benefit. It amounted to 2 288 million Euro in 2012 which is approximately X% of the value of total social protection benefits reported in ESSPROS.
- Premies koopwoningen: These are benefits to owner-occupiers that aims to allow people with low incomes to buy a house. These are reported as *benefits in kind* (Scheme 24 – 11772220) in ESSPROS but as *social benefits other than social transfers in kind* (D.62) in National accounts. It amounted to 38 million Euro in 2012 which is less than 1% of the value of total social protection benefits reported in ESSPROS.

### **Breakdown of social benefits by detailed benefit type**

In terms of the breakdown of social benefits by detailed benefit type, national accounts provides a distinction between pension benefits and non-pension benefits for certain *social benefits other than social transfers in kind* (D.62) as follows:

- *Social security benefits in cash* (D.621) are split between *social security pension benefits in cash* (D.6211) and *social security non-pension benefits in cash* (D.6212).
- Other social insurance benefits (D.622) are split between *other social insurance pension benefits* (D.6221) and *other social insurance non-pension benefits* (D.6222).

This distinction is made on the basis of the ESA definition of social insurance pensions which “are benefits which beneficiaries receive upon retirement, usually under predetermined legal or contractual terms and typically in the form of a guaranteed annuity” (ESA, Chapter 17, §17.40, p368). Further clarification of this is given stating that “The most important pension benefit of social insurance schemes is income in retirement, but a number of other cases may also occur. For example, pensions may be payable to widows and widowers or to people who suffer an industrial injury and are no longer able to work. All events that give rise to payments because the income earner is no longer able, through death or incapacity, to provide an income for himself or herself and dependants are treated as pensions.” ESA does not make a distinction between pension and non-pension benefits which constitute *social assistance benefits in cash* (D.623).

In ESSPROS there are a number of detailed benefits types which are referred to as pensions in the ESSPROS methodology (see ESSPROS, Appendix III: Methodology of the module on Pension beneficiaries, §1, p104) but no overall definition of pension is given. The concept of pensions in ESSPROS can be interpreted as referring to periodic cash payments that address long-term risks/needs through income replacement in case of full or partial withdrawal or inability to participate in the labour market, including – in the case of disability only – for persons who may not have worked before. As a form of income replacement, pensions are intended to provide the means to support a minimum standard of living and are clearly distinguished from “allowances” that cover additional costs associated with old-age and/or sickness/disability (e.g. the need for long-term care).

The scope of the concept of pensions in ESSPROS clearly shares a number of similarities with that defined in ESA. However, there may be some divergence. The ESA pension

concept appears to be limited to cases where the “*income earner is no longer able, through death or incapacity, to provide an income for himself or herself and dependants*”. Taken literally this seemingly excludes those who have never worked due to disability and those who retire early due to labour market reasons. Furthermore, the ESA pension concept is not extended to social assistance. Most countries are expected to have social assistance benefits which provide pensions to indigent persons in order to guarantee a minimum level of income so this could result in significant differences (see Box 5). However, “social assistance pensions” may be recorded in national accounts under “social security schemes “(see ESA 4.89 (a) and the definition of “social assistance benefits in cash” (ESA 4.105) does not necessarily exclude “pensions”.

#### **Box 11: Practical examples – Application of pension concepts**

##### **Italy:**

There exist three schemes in the ESSPROS data (8, 23 and 24) which can be identified as providing social assistance according to the ESA definition and which report expenditure in one of the ESSPROS pension categories. This expenditure amounted to 40 137 million Euro in 2012 and represented 15.4% of total pension expenditure (260 088 million Euro). There would therefore be a significant difference between the value of pensions derived following the ESSPROS concept and that following the ESA concept.

##### **The Netherlands:**

In practice, pensions are interpreted the same way for the production of data for both ESSPROS and national accounts. There are no schemes in the ESSPROS data which can be identified as providing social assistance according to the ESA definition and which report expenditure in one of the ESSPROS pension categories. The value of pensions derived following the ESSPROS concept and that following the ESA concept are the same.

Minimum income schemes which provide means-tested benefits to those who are unable to obtain the full minimum pension benefit from social security are reported under social exclusion rather than under any of the pension classifications.

**➔ A detailed correspondence between the breakdowns of social protection benefits in ESSPROS and national accounts cannot be easily established.**

#### **2.2.2.2. Social contributions**

In ESSPROS social contributions are broken down by type of contributor: employers or protected persons. Employers’ contributions are then split into imputed<sup>13</sup> or actual contributions and further by sector of origin. Contributions from protected persons are broken down only by labour market status of the contributor: employee, self-employed or pensioner/other (see ESSPROS, Part 1, Section 1.5, p21).

In national accounts social contributions are broken down into four classifications - *employers’ actual social contributions* (D.611), *employers’ imputed social contributions* (D.612), *households’ actual social contributions* (D.613) and *households’ social contribution*

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<sup>13</sup> Imputed contributions are the “costs incurred by employers by granting social benefits or by promising social benefits payable in future, to their employees, former employees and their dependants, (i) without involving an autonomous insurer, and; (ii) without maintaining segregated reserves for that purpose in their balance sheets” (ESSPROS, Part 1, §73, p26).

*supplements* (D.614). The distinction of employers and households is equivalent to that of employers and protected persons in ESSPROS (despite the use of the different terms) and the breakdown of employers' contributions into imputed and actual is also the same (see ESA, Chapter 4, §4.91-4.101, p109-111). Further, the national accounts breakdown by institutional sector can be used to mimic the ESSPROS breakdown by sector of origin for employers' contributions and status of protected persons for households' contributions. Overall, all the breakdowns of social contributions used in ESSPROS are either matched directly or can be mapped using other breakdowns available in national accounts (see further in section 3.2).

National accounts includes a breakdown for *households' social contribution supplements* (D.614) which relate to "property income earned during the accounting period on the stock of pension and non-pension entitlements" (see ESA, Chapter 4, §4.101, p111). This is a new classification that was introduced by ESA 2010 and seems to correspond to the ESA 2010 extension of D.44 ("other investment income") from insurance (See ESA 95 §4.68-4.69) to pension and other collective investment funds (ESA 2010 §4.68-4.70). However, this innovation of ESA 2010 (D.614) does not change the scope of social contributions compared to ESA 95, but represents only an additional breakdown. Indeed social contribution supplements were already included as component of "employees' social contributions" (D.6112) and "social contributions by self-employed and non-employed persons" (D.6113) in the previous versions of ESA (see ESA 95 4.92 b+c). In addition, ESA 2010 (§4.91) includes a negative component "in the definition of *net social contributions* (D.61): "social insurance scheme service charges" (D.61SC).<sup>14</sup> According to ESSPROS Manual Appendix VI (chapter 4), not yet updated to ESA 2010, it would seem appropriate that *social contributions by the protected persons* in ESSPROS should be reported net of the supplements and gross of the "service charges". There is evidence to suggest this may already be the case in some countries (see Box 12).

#### **Box 12: Practical examples - Households' social contribution supplements**

##### **Italy:**

*Households' social contribution supplements* (D.614) is not used in National Accounts and there is no evidence of any transactions that could be reported within this classification being reported in ESSPROS.

##### **The Netherlands:**

*Households' social contribution supplements* (D.614) is used in National Accounts in the case of pensions schemes associated with *Insurance Corporations* (S.128) and *Pension funds* (S.129). The data reported in ESSPROS for *social contributions by the protected persons* (2120000) are reported net of these supplements.

**→ A detailed correspondence between the breakdowns of social contributions in ESSPROS and national accounts can be established.**

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<sup>14</sup> This may correspond to the ESSPROS "administration costs".

### 3. BROAD LINKS BETWEEN ESSPROS AND NATIONAL ACCOUNTS

The above analysis has identified the key areas of correspondence and difference between ESSPROS and national accounts. In some areas direct links between the two systems would appear to be possible at an aggregate level (i.e. all schemes level in ESSPROS) but in others the scope of national accounts seems to be wider than ESSPROS so that links can only be established at a more detailed level. This section summarises the links that are possible and also identifies where discrepancies may be expected.

#### 3.1. Social protection benefits

In theory, a link between expenditure on social protection benefits in ESSPROS and social benefits in National accounts can only be established at aggregate level (1100000) because the breakdowns by benefits in cash and benefits in kind are, in general, not comparable between the two systems and national accounts does not provide a detailed breakdown by type of benefit.

Expenditure data for total *social protection benefits* (1100000) for all schemes in ESSPROS should correspond to the sum of *social benefits other than social transfers in kind* (D.62) in the secondary distribution of income account (uses data) and *social transfers in kind* (D.63) in the redistribution of income in kind account (again, uses data) for the whole economy (S.1).

However, since the scope of social benefits in national accounts is wider than that of social protection in ESSPROS (e.g. “education benefits” or “transfers in kind without a social purpose”, see section 2.1) it is unlikely that there will be a direct match and the national accounts figure should be higher. Indeed, this is the case in the countries where the link has been tested (see Box 13). The practical value of this is that, provided that education benefits (and/or transfers in kind without a social purpose) exist in a country, if *social protection benefits* (1100000) in ESSPROS is equal to or greater than the sum of *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63) in national accounts this could indicate a problem in the data for either system.

#### Box 13: Practical example – Broad links for data on social protection benefits

##### Italy:

This link does not quite hold in practice in the case of Italy. There are several differences in the data. These exist differences due to differences in the scope of social protection that were described above, including those which relate to certain education related benefits and transfers without a social purpose (recreational, cultural or sport services) which are included in National accounts but not in ESSPROS (see Box 1 and Box 5). However, administration costs which would be reported under *administration costs* (1200000) in ESSPROS are also reported under *social benefits* (D.6) in national accounts. The reason for this being the case is unclear. As a result the sum of *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63) minus transfers without a social purpose (recreational, cultural or sport services), education related benefits in National accounts and administration costs in ESSPROS (1200000) corresponds to *total social protection benefits* (1100000) in ESSPROS. An example based on data for reference year 2012 is as follows:

D.62 + D.63 in National accounts (533 956 million Euro)	
-	
Transfers without a social purpose in National accounts (10 042 million Euro)	
-	
Education related benefits in National accounts (57 692 million Euro)	
-	

Administration costs 1200000 in ESSPROS (11 923 million Euro)  
 =  
 Total social protection benefits 1100000 in ESSPROS (454 299 million Euro)

**The Netherlands:**

This link holds in practice in the case of the Netherlands. The only difference in the data relates to certain education related benefits which are included in National accounts but not in ESSPROS (see Box 1). As a result the sum of *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63) minus education related benefits in National accounts corresponds exactly to *total social protection benefits* (1100000) in ESSPROS. An example based on data for reference year 2010 is as follows:

National accounts D.62 + D.63 (176 858 million Euro)  
 -  
 Education related benefits in National accounts (2 005 million Euro)  
 =  
 Total social protection benefits 1100000 in ESSPROS (174 853 million Euro)

Note that it is possible to exclude benefits provided by government related to education and to transfers without a social purpose (recreational, cultural or sport services) in order to make a more direct link. For government expenditure, this requires a breakdown of national accounts data by classification of functions of government (COFOG) which is discussed in section 4.3.

**3.2. Social contributions**

As the breakdowns of social contributions in the two statistical systems are more or less identical, a direct correspondence can be established for total social contributions (2100000) and subsequent breakdowns. This holds despite differences in the scope of social protection because the additional benefits included in national accounts, such as education related benefits and transfers without a social purpose, are not typically funded by social contributions.

**3.2.1. Actual and imputed employers’ social contributions and social contribution by protected persons**

Receipts data for actual and imputed employers’ social contributions (2110100 and 2110200) and social contributions by protected persons (2120000) at all schemes level in ESSPROS can be directly linked with the resources data in the secondary distribution of income account of national accounts (Table 5).

**Table 5: Actual and imputed employers’ social contributions and social contributions by protected persons in ESSPROS and ESA**

ESSPROS social contributions	ESA social contributions in the secondary distribution of income account (resources)
<i>Actual employers' social contributions</i> (2110100)	<i>Employers' actual social contributions</i> (D.611) for the whole economy (S.1)
<i>Imputed employers' social contributions</i> (2110200)	<i>Employers' imputed social contributions</i> (D.612) for the whole economy (S.1)
<i>Social contributions by the protected persons</i> (2120000)	Sum of <i>Households' actual social contributions</i> (D.613) and <i>Households' social contribution supplements</i> (D.614) for the whole economy (S.1)

As a link can be made for these breakdowns a link is also possible for total social contributions. Receipts data for total *social contributions* (2100000) for all schemes in ESSPROS should correspond to sum of *employers' actual social contributions* (D.611), *employers' imputed social contributions* (D.612), *households' actual social contributions* (D.613) and *households' social contribution supplements* (D.614) in the resources data in the secondary distribution of income account for the whole economy (S.1).

### 3.2.2. Actual and imputed employers' social contributions by sector of origin

In order to link the breakdowns of actual and imputed employers' social contributions by sector of origin between the two systems it is not possible to use the resources data in the secondary distribution of income account because it is necessary to consider who generates the income instead of who receives it.

In order to do this it is necessary to consider the generation of income account in national accounts. There is a direct link between actual and imputed employers' social contributions reported under social contributions and benefits (D.6) in the secondary distribution of income account and actual and imputed employers' social contributions reported under compensation of employee's (D.1) generation of income account in national accounts (see ESA, Chapter 4, §4.92 and §4.97, p109-110) such that at all sectors level:

- *Employers' actual social contributions* (D.611) = *Employers' actual social contributions* (D.121)
- *Employers' imputed social contributions* (D.612) = *Employers' imputed social contributions* (D.122)

This link, paired with the fact that there is a direct mapping between institutional sectors in national accounts and those used to breakdown employers' social contributions by sector of origin as shown in

Table 6, means that receipts data for actual and imputed employers' social contributions (2110100 and 2110200) broken down by sector of origin at all schemes level in ESSPROS should correspond to employers' actual and imputed social contributions (D.121 and D.122) in the uses data in the generation of income account broken down by sector using the classifications shown in Table 7.

**Table 6: Sectors of origin used to breakdown social contributions in ESSPROS and institutional sectors in ESA**

<b>ESSPROS sector of origin</b>	<b>ESA institutional sector</b>
<i>Corporations</i>	<i>Non-financial corporations</i> (S.11) <i>Financial corporations</i> (S.12)
<i>Central government</i>	<i>Central government</i> (S.1311)
<i>State and local government</i>	<i>State government</i> (S.1312) <i>Local government</i> (S.1313)
<i>Social security funds</i>	<i>Social security funds</i> (S.1314)
<i>Households</i>	<i>Households</i> (S.14)
<i>Non-profit institutions serving households</i>	<i>Non-profit institutions serving households</i> (S.15)
<i>Rest of the World</i>	<i>Rest of the World</i> (S.2)

**Table 7: Actual and imputed employers' social contributions by sector of origin in ESSPROS and ESA**

ESSPROS social contributions	ESA social contributions in the generation of income account (uses)
<i>Actual employers' social contributions</i> (2110100)	
<i>Corporations</i> (2110101)	<i>Employers' actual social contributions</i> (D.121) for <i>Non-financial corporations</i> (S.11) and <i>Financial corporations</i> (S.12)
<i>Central government</i> (2110102)	<i>Employers' actual social contributions</i> (D.121) for <i>Central government</i> (S.1311)
<i>State and local government</i> (2110103)	<i>Employers' actual social contributions</i> (D.121) for <i>State government</i> (S.1312) and <i>Local government</i> (S.1313)
<i>Social security funds</i> (2110104)	<i>Employers' actual social contributions</i> (D.121) for <i>Social security funds</i> (S.1314)
<i>Households</i> (2110105)	<i>Employers' actual social contributions</i> (D.121) for <i>Households</i> (S.14)
<i>Non-profit institutions serving households</i> (2110106)	<i>Employers' actual social contributions</i> (D.121) for <i>Non-profit institutions serving households</i> (S.15)
<i>Rest of the World</i> (2110107)	<i>Employers' actual social contributions</i> (D.121) for <i>Rest of the World</i> (S.2)
<i>Imputed employers' social contributions</i> (2110200)	
<i>Corporations</i> (2110201)	<i>Employers' imputed social contributions</i> (D.122) for <i>Non-financial corporations</i> (S.11) and <i>Financial corporations</i> (S.12)
<i>Central government</i> (2110202)	<i>Employers' imputed social contributions</i> (D.122) for <i>Central government (excluding social security funds)</i> (S.1311)
<i>State and local government</i> (2110203)	<i>Employers' imputed social contributions</i> (D.122) for <i>State government (excluding social security funds)</i> (S.1312) and <i>Local government (excluding social security funds)</i> (S.1313)
<i>Social security funds</i> (2110204)	<i>Employers' imputed social contributions</i> (D.122) for <i>Social security funds</i> (S.1314)
<i>Households</i> (2110205)	<i>Employers' imputed social contributions</i> (D.122) for <i>Households</i> (S.14)
<i>Non-profit institutions serving households</i> (2110206)	<i>Employers' imputed social contributions</i> (D.122) for <i>Non-profit institutions serving households</i> (S.15)
<i>Rest of the World</i> (2110207)	<i>Employers' imputed social contributions</i> (D.122) for <i>Rest of the World</i> (S.2)

### 3.2.3. Social contribution by protected persons by status of protected persons

As in the case of actual and imputed employers' social contributions by sector of origin, it is not possible to link the breakdowns of social contributions by protected persons by labour market status between the two systems using the resources data in the secondary distribution of income account.

There is a direct mapping between institutional sectors in national accounts and the breakdowns of protected persons by labour market status as shown in Table 8, means that receipts data for *Social contributions by the protected persons* (2120000) broken down by category of protected person at all schemes level in ESSPROS should correspond to the sum of *households' actual social contributions* (D.613) and *households' social contribution supplements* (D.614) in the uses data in the secondary distribution of income account broken down by sector using the classifications shown in Table 9.

**Table 8: Categories of protected used to breakdown social contributions in ESSPROS and institutional sectors in ESA**

ESSPROS status of protected persons	ESA institutional sector
<i>Employee</i>	<i>Employees</i> (S.143)
<i>Self-employed</i>	<i>Own-account workers</i> (S.142)
<i>Pensioners/other</i>	<i>Recipients of property and transfer income</i> (S.144)

**Table 9: Social contributions by the protected persons by category in ESSPROS and ESA**

ESSPROS social contributions	ESA social contributions in the secondary distribution of income account (uses)
<i>Social contributions by the protected persons (2120000)</i>	
<i>Employees (2121000)</i>	Sum of <i>households' actual social contributions (D.613)</i> and <i>households' social contribution supplements (D.614)</i> for <i>Employees (S.143)</i>
<i>Self-employed (2122000)</i>	Sum of <i>households' actual social contributions (D.613)</i> and <i>households' social contribution supplements (D.614)</i> for <i>Own-account workers (S.142)</i>
<i>Pensioners and other (2123000)</i>	Sum of <i>households' actual social contributions (D.613)</i> and <i>households' social contribution supplements (D.614)</i> for <i>Recipients of property and transfer income (S.144)</i>

**Box 14: Practical examples – Broad links for data on social contributions**

**Italy and the Netherlands:**

All social contributions are reported in the same way in both ESSPROS and national accounts, the only differences are that National Accounts has a separate classification for households' social contribution supplements (D.614) and ESSPROS requires detailed breakdown by scheme. Nevertheless, The aggregate and detailed links for social contributions presented above hold in practice.

**4. DETAILED LINKS BETWEEN ESSPROS AND NATIONAL ACCOUNTS**

Having considered the main differences between national accounts and ESSPROS in terms of the scope of social protection covered, organisation of statistics and the broad links between the two, this next section attempts to show how more detailed links between national accounts and ESSPROS can be established. Making more detailed links relies on addressing several differences between the two systems:

1. **Scheme concepts:** A correspondence between the scheme concepts used in ESSPROS and in national accounts can be established in order to compare breakdowns of data on expenditure on social protection benefits between systems.
2. **Statistical unit:** A correspondence between ESSPROS schemes and national accounts institutional sectors can be established in order to compare data for schemes grouped by sector.
3. **Breakdown of social benefits by function:** While there is no breakdown of social benefits by function of social protection at the all sector level (S.1) in national accounts, a breakdown of expenditure of the government sector (S.13) according to the classification of functions of government (COFOG) is provided as part of the government finance statistics (GFS) statistics. Using COFOG it is possible to compare data on expenditure by government on social protection benefits broken down by function.

Note that the detailed links presented within this section remain theoretical and cannot be considered definitive. In practice, the interpretation of the very detailed classifications in both

systems, their application to the national situation and thus the correspondence between them may vary. Nevertheless, the links presented may be useful for countries seeking to align the data production processes for ESSPROS and National accounts.

#### **4.1. Scheme concepts used in ESSPROS and national accounts**

The aggregation of the national accounts concepts of *social security scheme*, *employment-related social insurance schemes other than social security* and *social assistance* concepts corresponds to the *social protection schemes* concept used in ESSPROS (ESSPROS, Part 1, Section 2.2, §16, p10). In national accounts these concepts are used to:

- Split social benefits between *social benefits other than social transfers in kind* (D.62) and *social transfers in kind* (D.63).
- Split social benefits classified as *social benefits other than social transfers in kind* (D.62) between *social security benefits in cash* (D.621), *other social insurance benefits* (D.622) and *social assistance benefits in cash* (D.623).

In ESSPROS specific types of *social protection schemes* are not identified, instead social protection schemes are classified according to 5 different broad criteria (decision-making, legal enforcement, establishment of entitlements, scope and level of protection) which can be used to make different groupings of schemes for analysis (see ESSPROS, Chapter 4, p18-24). However, these can also, to some extent, be used to identify which of the three national account concepts each scheme conforms to. By doing so it is then possible to make more detailed links between systems for breakdowns of social protection benefits.

##### **4.1.1. Social security schemes**

In ESA a *social security scheme* is a type of *social insurance scheme* therefore in order to be able to classify a scheme under this concept it must first adhere to the overlying definition of a *social insurance scheme* and then the definition of a *social security scheme* which are as follows:

**Social insurance schemes:** “*schemes in which participants are obliged, or encouraged, by a third party to take out insurance against certain social risks or circumstances that may adversely affect their welfare or that of their dependants. In such schemes, social contributions are paid by employees or others, or by employers on behalf of their employees, in order to secure entitlement to social insurance benefits, in the current or subsequent periods, for the employees or other contributors, their dependents or survivors. Contributions to social insurance schemes can also be paid by, or on behalf of, self-employed or non-employed persons*” (ESA, Chapter 17, §17.01, p363).

**Social security schemes:** *social insurance schemes “covering the entire community, or large sections of the community, that are imposed, controlled and financed by government units. Pensions payable under such schemes may or may not be related to levels of salary of the beneficiary or history of employment. Non-pension benefits are less frequently linked to salary levels”* (ESA, Chapter 17, §17.02, p363).

In national accounts *social security schemes* are financed by *social security funds* (S.1314). The corresponding benefits in cash are reported under *Social security benefits in cash* (D.621) and corresponding benefits in kind are reported under *social transfers in kind — government and NPISHs non-market production* (D.631) or *social transfers in kind — market production purchased by general government and NPISHs* (D.632). Social contributions for such

schemes can be expected to be reported under *employers' actual social contributions* (D.611) and/or *households' actual social contributions* (D.613).

It is possible to identify, in theory, the classifications that *social security schemes* would adopt in the ESSPROS framework:

- Decision-making: ESA states that *social security schemes* should be imposed and controlled by government units. Such schemes are therefore generally classified as **1.1 Government-controlled schemes**.
- Legal enforcement: ESA states that *social insurance schemes* are schemes in which participants are “obliged, or encouraged, by a third party to take out insurance”. It can therefore be expected that *social security schemes* are **2.1 Compulsory schemes**.
- Scope: ESA states that *social security schemes* should cover “*the entire community, or large sections of the community*”. On this basis they could take any classification. However, ESA also states that “*social insurance schemes organised by government units for their own employees as opposed to the working population at large are classified as other employment related schemes and not as social security schemes.*” (ESA, Chapter 4, §4.90, p109) and social insurance schemes require that “*social contributions are paid by employees or others*” therefore schemes can take any classification other than **4.1 Universal**<sup>15</sup> or **4.3.1 Special schemes for public servants**.
- Establishment of entitlements: ESA states that “*social contributions are paid [...] in order to secure entitlement to social insurance benefits*” but access to benefits of social security schemes “*may or may not be related to levels of salary of the beneficiary or history of employment*”. This suggests that *social security schemes* are **3.1 Contributory**.
- Level of protection: There is no clear specification concerning level of protection in ESA. *Social security schemes* are therefore either **5.1 Basic schemes** or **5.2 Supplementary schemes**.

There are several other points which need to be considered in terms of the link between the definition of a *social security scheme* in ESA and a the classification of social protection schemes in ESSPROS:

- In National Accounts, *social security schemes* must be financed by government units, whereas in ESSPROS government controlled schemes are defined only as being controlled by government units.
- In the case of *social insurance schemes* organised by government units for their own employees, ESSPROS identifies such schemes as government controlled or not government controlled depending whether there exists an equivalent government controlled scheme for the private sector. If one exists then such a scheme is considered a **1.1 government-controlled scheme** otherwise it is a **1.2.1 not government-controlled scheme for employees** (see ESSPROS, 1.4.2.2 §50, p17). In National Accounts, the concept of equivalence does not feature. Instead, “*Social insurance schemes organised by government units for their own employees as opposed to the working population at large*

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<sup>15</sup> As mentioned at the end of 2.2.2.1 above, since it may happen that social assistance pensions are recorded under social security schemes in national accounts, the exclusion of “universal schemes” maybe debatable.

*are classified as other employment related schemes and not as social security schemes.”* (ESA, Chapter 4, §4.90, p109).

#### **4.1.2. Employment-related social insurance schemes other than social security**

In ESA an *employment-related social insurance schemes other than social security* is a type of *social insurance scheme* therefore in order to be able to classify a scheme under this concept it must first adhere to the overlying definition of a *social insurance scheme* which was presented in the previous section and then the definition of a *employment-related social insurance schemes other than social security* which is as follows:

**Employment-related social insurance schemes other than social security:** “*schemes which derive from an employer-employee relationship in the provision of pension, and possibly other, entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions.*” (ESA, Chapter 17, §17.02, p363)

In national accounts *employment-related social insurance schemes other than social security* are expected to be financed by any sector except *social security funds* (S.1314). The corresponding benefits in cash and in kind are reported under *other social insurance benefits* (D.622). Social contributions for such schemes can be expected to be reported under *employers’ actual social contributions* (D.611), *employers’ imputed social contributions* (D.612) and/or *households’ actual social contributions* (D.613).

It is possible to identify, in theory, the classifications that *other employment-related schemes* would adopt in the ESSPROS framework:

- **Decision-making:** ESA states that in the case of *other employment-related schemes* “*the provision of benefits does not devolve to general government under social security provisions*” and can therefore be **1.2 Not government-controlled schemes**. However, they may also be **1.1 government-controlled scheme** if they constitute a social insurance scheme organised by government units for their own employees and there exists an equivalent government controlled scheme for the private sector or a social insurance scheme which is controlled by government but not funded by government (i.e. direct payment of wages by the employer in the event of sickness).
- **Legal enforcement:** There is no clear specification concerning legal enforcement in ESA therefore *other employment-related schemes* are either **2.1 Compulsory schemes** or **2.2 Non-compulsory schemes**.
- **Scope:** ESA states that “*provision of benefits does not devolve to general government under social security provisions*” which suggests that *other employment-related schemes* do not apply to the whole population and therefore can take any classification except that of a **4.1 Universal scheme**.
- **Establishment of entitlements:** ESA states that in the case of *other employment-related schemes* “*the provision of benefits does not devolve to general government under social security provisions*” and that such schemes “*derive from an employer-employee relationship in the provision of pension, and possibly other, entitlements that are part of the conditions of employment.*” Given that as a type of *social insurance scheme* “*social contributions are paid [...] in order to secure entitlement*” it must therefore be the case that such schemes are **3.1 Contributory**.

- Level of protection: There is no clear specification concerning level of protection in ESA. *Other employment-related schemes* are therefore either **5.1 Basic schemes** or **5.2 Supplementary schemes**.

The distinction between a *social security scheme* and *other employment-related schemes* in ESA is described in table 17.1 of the ESA 2010 manual (p364). This distinction cannot be fully established based only on the 5 different broad criteria used in ESSPROS. The method by which a scheme is financed must also be considered.

#### **4.1.3. Social assistance**

In ESA *social assistance* is not a type of social insurance scheme. Its definition and the distinction with social insurance are as follows:

*“Social assistance is not part of social insurance. Social assistance benefits are payable independently of participation in a social insurance scheme, i.e. without qualifying contributions having been made to a social insurance scheme.*

*Social assistance is distinguished from social security, by the eligibility to receive social assistance benefits from general government, and is not dependent on having elected to participate as demonstrated by the payment of contributions. Usually all members of resident households are entitled to apply for social assistance but the conditions under which it is granted are often restrictive. Frequently there is an assessment of available income including social insurance benefits, in relation to the perceived needs of a household. Only those households falling below a given threshold may be entitled to this type of social assistance.”* (Chapter 17, §17.04-17.05, p364)

In national accounts *social assistance* is expected to be financed by general government (S.13) or *non-profit institutions serving households* (S.15). The corresponding benefits in cash are reported under *social assistance benefits in cash* (D.623) and corresponding benefits in kind are reported under *social transfers in kind — government and NPISHs non-market production* (D.631) or *social transfers in kind — market production purchased by general government and NPISHs* (D.632). Social contributions are not applicable in the case of *social assistance*.

It is possible to identify, in theory, the classifications that schemes providing *social assistance* would adopt in the ESSPROS framework:

- Decision-making: ESA states that “*social assistance benefits in cash are current transfers payable to households by government units or NPISHs*”. Given that they are financed by government or NPISH they are therefore controlled by them. This suggests that schemes providing *social assistance* are therefore either **1.1 Government-controlled schemes** or **1.2.2 Other not government-controlled schemes**.
- Legal enforcement: There is no clear specification concerning legal enforcement in ESA. However, the ESSPROS methodology specifies that government controlled social protection is usually established by law or regulation (see 1.4.2.2 §50, p19). It can therefore be expected that social assistance schemes are typically **2.1 Compulsory schemes** but may also be **2.2 Non-compulsory schemes**.
- Scope: ESA states that “*Social assistance is distinguished from social security, by the eligibility to receive social assistance benefits from general government, and is not*

*dependent on having elected to participate as demonstrated by the payment of contributions*” therefore schemes can be expected to be **4.1 Universal** or **4.2 General**.

- **Establishment of entitlements:** ESA states that “*Social assistance is distinguished from social security, by the eligibility to receive social assistance benefits from general government, and is not dependent on having elected to participate as demonstrated by the payment of contributions.*” This implies that schemes are **3.2 Non-contributory**.
- **Level of protection:** There is no clear specification concerning level of protection in ESA. *Other employment-related schemes* are therefore either **5.1 Basic schemes** or **5.2 Supplementary schemes**.

#### ***4.1.4. Mapping between National accounts and ESSPROS concepts***

On the basis of the above analysis of the national accounts concepts of *social security schemes, employment-related social insurance schemes other than social security and social assistance* and the classification of systems in ESSPROS the basic mapping presented in Table 10 can be established.

In theory it should be possible in some cases to identify which concept a scheme adheres to on the basis of three of the 5 criteria - Decision making, Establishment of entitlements and Scope. However, as mentioned above there are a number of limitations and exceptions that need to be taken into accounts. For this reason it is also important to consider the quantitative information, particularly that related to the financing of schemes, and any qualitative information available to verify that the concept to which an ESSPROS social protection scheme adheres is correctly identified.

**Table 10: Correspondence between concepts in National accounts and ESSPROS**

ESA Scheme type	Social security schemes	Other employment-related social insurance schemes	Social assistance schemes
<b>ESA 2010</b>			
<b>Sector</b>	S.1314	S11, S12, S13, S15	S.13, S.15
<b>Benefit in cash</b>	D.621	D.622	D.623
<b>Benefit in kind</b>	D.631, D.632	D.622	D.631, D.632
<b>Social contributions</b>	D.611, D.613	D.611, D.612, D.613	N/A
<b>ESSPROS</b>			
<b>Decision Making</b>			
1.1.1 Central government schemes and social security funds	x	x <sup>1</sup>	x
1.1.2 State or local government schemes	x	x <sup>1</sup>	x
1.2.1.1 Contractual not government-controlled schemes for employees		x	
1.2.1.2 Non-contractual not government-controlled schemes for employees		x	
1.2.2 Other not government-controlled schemes		x	x
<b>Legal enforcement</b>			
2.1 Compulsory schemes	x	x	x
2.2.1 Non-compulsory schemes available by law		x	x
2.2.2 Other non-compulsory schemes		x	x
<b>Establishment of entitlements</b>			
3.1 Contributory schemes	x	x	
3.2 Non-contributory schemes			x
<b>Scope</b>			
4.1 Universal schemes			x
4.2 General schemes	x	x	x
4.3.1 Schemes for public servants		x <sup>1</sup>	
4.3.2 Schemes for the self-employed	x	x	
4.3.3 Other occupational schemes	x	x	
4.3.4 Other schemes	x	x	
<b>Level of Protection</b>			
5.1 Basic schemes	x	x	x
5.2 Supplementary schemes	x	x	x

Notes: <sup>1</sup> In ESA Social insurance schemes organised by government units for their own employees are classified as *other employment related schemes*.

Once ESSPROS schemes have each been allocated to one of the three concepts it should be possible to establish links between ESSPROS and national accounts such as those shown in Table 11. However, owing to the fact that the scope of social protection differs between the two statistical systems it is unlikely that this link will produce a direct match for the reasons mentioned in section 3.1. Further, links are detailed in **Annex 1**.

**Table 11: Breakdown of social protection benefits in ESSPROS and ESA**

ESSPROS social protection benefits	ESA social benefits
<i>Social protection benefits in cash</i> (1101100 and 1102100) for schemes identified as <i>social security schemes</i>	<i>Social security benefits in cash</i> (D.621) in the uses data of the secondary distribution of income account for the whole economy (S.1)
<i>Social protection benefits in cash</i> (1101100 and 1102100) and <i>in kind</i> (1101200 and 1102200) for schemes identified as <i>other employment-related social insurance schemes</i>	<i>Other social insurance benefits</i> (D.622) in the uses data of the secondary distribution of income account for the whole economy (S.1)
<i>Social protection benefits in cash</i> (1101100 and 1102100) for schemes identified as <i>social assistance schemes</i>	<i>Social assistance benefits in cash</i> (D.623) in the uses data of the secondary distribution of income account for the whole economy (S.1)
<i>Social protection benefits in kind</i> (1101200 and 1102200) for schemes identified as <i>social security schemes</i> or <i>social assistance schemes</i>	<i>Social transfers in kind</i> (D.63) in the uses data of the redistribution of income in kind account for the whole economy (S.1)

## 4.2. Schemes in ESSPROS and institutional sectors in national accounts

In national accounts, data are broken down by institutional sector. An alternative method for establishing detailed links between national accounts and ESSPROS is therefore to identify for each social protection scheme in ESSPROS the institutional sector of the organisation responsible for running the scheme and group data using this information in order to compare it with that of national accounts.<sup>16</sup>

The classification of institutional sectors in national account is based on a multitier system (see ESA, Chapter 2, §2.31-2.143, p31). While it can be useful to identify the most detailed classification for each ESSPROS scheme in order to make links at the most detailed, the minimum level of classification required to provide additional useful links is presented in Table 12. For the large part only two-digit classifications are required. The only exceptions to this are for pension funds (S.129) and social security funds (S.1314) where more detailed classifications are useful.

**Table 12: Institutional sector classifications that can be used to establish detailed links**

Sectors and subsectors	Code
Non-financial corporations	S.11
Financial corporations	S.12
Pension funds (PF)	S.129
General government	S.13
Social security funds	S.1314
Non-profit institutions serving households (NPISHs)	S.15

It may be possible to identify the institutional sector of a scheme using the information on the classification of a scheme and the qualitative information, in particular the item on the organisation(s) responsible for running the scheme. However, it is likely that further investigation using other sources of information will be necessary in many cases. When, the sector of a scheme has been identified it can be cross-checked with the ESA concept of a *social security scheme, employment-related social insurance schemes other than social security or social assistance*, if one has been identified. For example, *social security schemes* are only operated by institutional units in the S.1314 sector.

Once the institutional sector for each scheme has been identified a vast array of different links can be established between ESSPROS and national accounts. Information on sector is particularly useful for breaking down schemes identified as *employment-related social insurance schemes other than social security or social assistance* into subgroups for which data can be compared between the two systems. These links are detailed in **Annex 1**.

The scheme concept and sector for which it is the most direct links can be established is that of *social security schemes* run by *social security funds* (S.1314). Social security funds serve the sole purpose of providing social protection which implies that all the transactions associated with such cases in national accounts are associated with social protection and are therefore reported independently of any other non-social protection related transactions.

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<sup>16</sup> In theory, there is no one-to-one relation between schemes and institutional units (see ESSPROS Manual, Part I, §43, last paragraph). However, at institutional sector level, this may represent a limited problem, in practice.

It is possible that in that in the ESSPROS data for some countries there may only be one scheme which associated with a specific institutional sector. This is often the case where schemes have been grouped together for practical reasons. For example, it is not uncommon for countries to have a single scheme related to *social assistance* provided by non-profit institutions serving households (S.15) because data can only be obtained at aggregate level. In this case links with national accounts may serve not only to validate the data of ESSPROS and national accounts but also as a means of completing the data of either collection.

### **4.3. COFOG and ESSPROS functions of social protection**

In ESA 2010 an alternative presentation of activities of the general government sector (S.13) is provided through the general government sector accounts (see ESA, Chapter 20, p417). The main reason for this is that such activities are of special interest and the powers, motivation, and functions of government are very different from those of other sectors.

These accounts are presented in the form of government finance statistics (GFS) which provide an integrated picture of government economic activities by reorganising transactions recorded in the ESA current accounts, capital account and financial account into a single account which is more suitable for analysis of government finance.

This single account presentation essentially separates ESA government transactions into government revenue and expenditure. The difference between the two is equivalent to net lending/net borrowing. In terms of social protection related transactions, *actual social contributions* (D.611) and *imputed social contributions* (D.612) are reported under revenue while *social benefits other than social transfers in kind* (D.62) and *social transfers in kind via market producers* (D.632) are reported under expenditure. *Social transfers in kind provided to households by non-market producers* (D.631) of government are excluded as a distinct item to avoid double counting with other transactions.

This presentation of government finance also applies a further classification to transactions reported as expenditure - the classification of functions of government (COFOG) - which is used to identify the purpose for which expenditure transactions are undertaken. COFOG describes government expenditure according to three tier classification system which identifies 10 different functions at the top level. A selection of COFOG classifications correspond with the functions of social protection used in ESSPROS.

This next section therefore attempts to illustrate the detailed links between the COFOG classification of government expenditure applied to social benefits in GFS of National accounts and the classification of social protection expenditure according to functions applied in ESSPROS. This is split into three sub-sections dealing with issues of scope, classification and linking.

#### **4.3.1. Scope of social protection expenditure in GFS and in ESSPROS**

Expenditure related to social benefits reported in GFS only includes transactions associated with general government sector (S.13). ESSPROS on the other hand covers social protection expenditure associated with all sectors of the economy. The implication of this is that, in addition to bearing in mind the general differences in scope between social benefits in national accounts and social protection in ESSPROS mentioned earlier, in order to be able to compare the GFS expenditure data with ESSPROS data on social protection expenditure it is necessary to identify the schemes reported in ESSPROS that are financed by general government before any comparison can be made.

### 4.3.2. Classification of social protection by purpose in GFS and in ESSPROS

COFOG provides a three tier classification system to describe the purpose for which expenditure transactions are undertaken. The three levels are known as Divisions, Groups, and Classes. The ten Divisions are as follows:

1. General public services
2. Defence
3. Public order and safety
4. Economic affairs
5. Environmental protection
6. Housing and community amenities
7. Health
8. Recreation, culture and religion
9. Education
10. Social protection

These divisions and subsequent breakdowns are defined in the COFOG 2011 manual. Based on the definition of social benefits in national accounts (ESA, D.6, §4.83-4.84, p107), specifically the list of risks or needs which may give rise to social benefits, government expenditure on social benefits in National Accounts can, in theory, belong to only four of the ten divisions: 7. Health, 8. Recreation, culture and religion 9. Education and 10. Social Protection.

Within each of these divisions a 2 tier classification by group enables those which relate to individual services and those which relate to collective services to be separately identified (see COFOG Manual, Section 3.5.2, p37-38). Social benefits are individual services therefore government expenditure on social benefits in national accounts is not allocated to classifications which relate to collective services. These are illustrated in

Table 13.

**Table 13: Individual and collective services**

<b>1 Digit Division / 2 Digit Group</b>	<b>Individual services</b>	<b>Collective services</b>
<b>7. Health</b>		
7.1 - Medical products, appliances and equipment	X	
7.2 - Outpatient services	X	
7.3 - Hospital services	X	
7.4 - Public health services	X	
7.5 - R&D Health		X
7.6 - Health n.e.c.		X
<b>8. Recreation, culture and religion</b>		
8.1 - Recreational and sporting services	x	
8.2 - Cultural services	x	
8.3 - Broadcasting and publishing services		x
8.4 - Religious and other community services		x
8.5 - R&D Recreation, culture and religion		x
8.6 - Recreation, culture and religion n.e.c.		x
<b>9. Education</b>		x
9.1 - Pre-primary and primary education	X	
9.2 - Secondary education	X	
9.3 - Post-secondary non-tertiary education	X	

9.4 - Tertiary education	X	
9.5 - Education not definable by level	X	
9.6 - Subsidiary services to education	X	
9.7 - R&D Education		X
9.8 - Education n.e.c.		X
<b>10. Social protection</b>		
10.1 - Sickness and disability	X	
10.2 - Old age	X	
10.3 - Survivors	X	
10.4 - Family and children	X	
10.5 - Unemployment	X	
10.6 - Housing	X	
10.7 - Social exclusion n.e.c.	X	
10.8 - R&D Social protection		X
10.9 - Social protection n.e.c.		X

One of the main differences between national accounts and ESSPROS, is that the former includes education related benefits and certain transfers without a social purpose related to recreational, cultural or sport services. As education and recreation, culture and religion are both specifically identified in the COFOG classification system this means that the related expenditure can be specifically excluded when comparing government expenditure on social benefits in national accounts broken down by COFOG with that in ESSPROS. Furthermore, this expenditure can also be used to adjust data at the all sector level as education and transfers without a social purpose related to recreational, cultural or sport services, for the large part, provided by the government sector.

On the basis of the 3-digit COFOG classification the correspondence between ESSPROS functions and COFOG classifications presented in Table 14 below can be established.

The two classification systems are, for the large part, harmonised because the COFOG classifications in the social protection division (10) and their definitions were established on the basis of the 1996 ESSPROS methodology. The main deviation is that the division does not include health care which is covered under a separate division (7). Nonetheless, there are a number of differences between classifications which could potentially result in differences. These are listed in **Annex 2**.

**Table 14: Correspondence between ESSPROS functions and 3-digit COFOG**

ESSPROS functions	COFOG classification
1. Sickness/healthcare	10.1.1 Sickness 07.1 Medical products, appliances and equipment 07.2 Outpatient services 07.3 Hospital services 07.4 Public health services
2. Disability	10.1.2 Disability
3. Old age	10.2 Old age
4. Survivors	10.3 Survivors
5. Family and children	10.4 Family and children
6. Unemployment	10.5 Unemployment
7. Housing	10.6 Housing
8. Social exclusion	10.7 Social exclusion n.e.c.

#### **4.3.3. Benefits and administration costs**

*Social transfers in kind provided to households by non-market producers (D.631) of government are not included in GFS as a distinct item. This complicates the linking of data*

with ESSPROS. The transactions associated with these are however, included under *individual consumption expenditure* (P.31) alongside *social transfers in kind provided to households via market producers* (D.632) and social protection benefit related administration costs for the relevant COFOG classifications (see ESA Chapter 4, §4.38, p97).

In ESSPROS administration costs are defined as “*the costs charged to the scheme for management and administration*” (ESSPROS, Part 1, §102, p34). These “*include outgoings on registration of beneficiaries, collection of contributions, administration of benefits, inspection, reinsurance, financial management and general overheads*” (ESSPROS, Part 1, §102A, p34) and exclude the costs of administrative services that are necessary to produce the goods and services classified as social benefits in kind which are included as part of the costs of social benefits in kind (ESSPROS, Part 1, §102C, p34). Administration costs are reported as a single item (1200000) for each social protection scheme and is not distributed between particular benefits (see ESSPROS, Part 1, Para 102B, p34) or specific functions of social protection.

In COFOG administration costs are reported alongside *social transfers in kind* (D.63) under *individual consumption expenditure* (P.31). This means that ESSPROS benefits in kind for a given function should be equal to *individual consumption expenditure* (P.31) for the corresponding COFOG classification if there are no *social benefits other than social transfers in kind* (D.62) reported under that COFOG.

Meanwhile, if *social benefits other than social transfers in kind* (D.62) are reported under a specific COFOG category while no *social transfers in kind* (D.63) are reported then the *individual consumption expenditure* (P.31) for that COFOG correspond to the administration costs of the *social benefits other than social transfers in kind* (D.62).

In the case when social benefit *other than social transfers in kind* (D.62) and *social transfers in kind* (D.63) are both reported under a specific COFOG then the individual consumption expenditure (P.31) for that COFOG corresponds to the administration costs related to *social transfers in kind* (D.63) and the *social transfers in kind* (D.63) themselves as well as the administration costs of the *social benefits other than social transfers in kind* (D.62).

Despite this complication, a broad link between the expenditure data of ESSPROS and the GFS government expenditure data by COFOG can, in theory, be established. The sum of expenditure for *social protection benefits* (1100000) and *administration costs* (1200000) for all schemes financed by the government sector (S.13) in ESSPROS should correspond to the sum of *social benefits other than social transfers in kind* (D.62) and *individual consumption expenditure* (P.31) for COFOG classifications 7.1 to 7.4 and 10.1 to 10.7 in GFS government expenditure data by COFOG. A number of detailed links can also be established. These are shown in **Annex 2**.

## 5. CHANGES FROM ESA-95 TO ESA-2010

In general there have been no changes which have had a dramatic effect on the possibility to link data from national accounts with data from ESSPROS. Nevertheless, there have been a number of changes in the classifications used which those attempting to establish a correspondence should be aware of.

### 5.1. Social contributions and benefits (D.6)

The changes to the structure of the social contributions and benefits codes (D.6) in ESA 2010 have an important impact on how links are established. In fact, the breakdowns of social contributions and social benefits have been completely revised.

**Table 15: Difference in classifications of social contributions and benefits (D.6) between ESA 2010 and ESA 95**

ESA 2010		ESA 95	
Code	Description	Code	Description
<b>D.6</b>	Social contributions and benefits	<b>D.6</b>	Social contributions and benefits
<b>D.61</b>	Net social contributions	<b>D.61</b>	Social contributions
		<b>D.611</b>	Actual social contributions
<b>D.611</b>	Employers' actual social contributions	<b>D.6111</b>	Employers' actual social contributions
		<b>D.61111</b>	Compulsory employers' actual social contributions
		<b>D.61112</b>	Voluntary employers' actual social contributions
<b>D.6111</b>	Employers' actual pension contributions		
<b>D.6112</b>	Employers' actual non-pension contributions		
<b>D.612</b>	Employers' imputed social contributions	<b>D.612</b>	Imputed social contributions
<b>D.6121</b>	Employers' imputed pension contributions		
<b>D.6122</b>	Employers' imputed non-pension contributions		
<b>D.613</b>	Households' actual social contributions	<b>D.6112</b>	Employees' social contributions
		<b>D.61121</b>	Compulsory employees' social contributions
		<b>D.61122</b>	Voluntary employees' social contributions
		<b>D.6113</b>	Social contributions by self- and non-employed persons
		<b>D.61131</b>	Compulsory social contributions by self- and non-employed persons
		<b>D.61132</b>	Voluntary social contributions by self- and non-employed persons
<b>D.6131</b>	Households' actual pension contributions		
<b>D.6132</b>	Households' actual non-pension contributions		
<b>D.614</b>	Households' social contributions supplements		
<b>D.6141</b>	Households' pension contributions supplements		
<b>D.6142</b>	Households' non-pension contributions supplements		
<b>D.62</b>	Social benefits other than social transfers in kind	<b>D.62</b>	Social benefits other than social transfers in kind
<b>D.621</b>	Social security benefits in cash	<b>D.621</b>	Social security benefits in cash
<b>D.6211</b>	Social security pension benefits in cash		
<b>D.6212</b>	Social security non-pension benefits in cash		
		<b>D.622</b>	Private funded social benefits
<b>D.622</b>	Other social insurance benefits		
<b>D.6221</b>	Other social insurance pension benefits		
<b>D.6222</b>	Other social insurance non-pension benefits		
		<b>D.623</b>	Unfunded employee social benefits
<b>D.623</b>	Social assistance benefits in cash	<b>D.624</b>	Social assistance benefits in cash
<b>D.63</b>	Social transfers in kind	<b>D.63</b>	Social transfers in kind
		<b>D.631</b>	Social benefits in kind
		<b>D.6311</b>	Social security benefits, reimbursements
		<b>D.6312</b>	Other social security benefits in kind
		<b>D.6313</b>	Social assistance benefits in kind

ESA 2010		ESA 95	
<b>D.631</b>	Social transfers in kind – non-market production		
		<b>D.632</b>	Transfers of individual non-market goods and services
<b>D.632</b>	Social transfers in kind – purchased market production		

Furthermore, in ESA 2010 all benefits granted by social security funds and all social assistance benefits provided to, or received from, the rest of the world are treated as cash benefits (ESA, Chapter 4, §4.111, p113). This was not the case in ESA 95. As ESSPROS does not follow this convention this has led to a new difference between the two systems in relation to how benefits in kind and benefits in cash are distinguished.

## 5.2. Institutional sector (S)

The changes to the structure of institutional sectors codes (S) in ESA 2010 have a small impact how links are established. The only change that has an impact is that which relates to pension funds. These now use the code S.129 instead of the code S.125 and are no longer grouped alongside insurance corporations.

**Table 16: Difference in classifications of institutional sectors (S) between ESA 2010 and ESA 95**

ESA 2010		ESA 95	
Code	Description	Code	Description
<b>S.1</b>	Total Economy	<b>S.1</b>	Total Economy
<b>S.11001</b>	Public non-financial corporations	<b>S.11001</b>	Public non-financial corporations
<b>S.11002</b>	Private non-financial corporations (national)	<b>S.11002</b>	Private non-financial corporations (national)
<b>S.11003</b>	Private non-financial corporations (foreign controlled)	<b>S.11003</b>	Private non-financial corporations (foreign controlled)
<b>S.12</b>	Financial Corporations	<b>S.12</b>	Financial Corporations
<b>S.12001</b>	Public Financial Corporations	<b>S.12001</b>	Public Financial Corporations
<b>S.121</b>	Central Bank	<b>S.121</b>	Central Bank
		<b>S.122</b>	Other monetary financial institutions
<b>S.122</b>	Deposit-taking corporations except the central bank		
<b>S.123</b>	Money market funds		
<b>S.124</b>	Non-MMF investment funds		
<b>S.125</b>	Other financial intermediaries, except insurance corporations and pension funds	<b>S.123</b>	Other financial intermediaries, except insurance corporations and pension funds
<b>S.126</b>	Financial auxiliaries	<b>S.124</b>	Financial auxiliaries
<b>S.127</b>	Captive financial institutions and money lenders		
		<b>S.125</b>	Insurance corporations and Pension funds
<b>S.128</b>	Insurance Corporations		
<b>S.129</b>	Pension Funds		
<b>S.13</b>	General Government	<b>S.13</b>	General Government
<b>S.1311</b>	Central Government	<b>S.1311</b>	Central Government
<b>S.1312</b>	State Government	<b>S.1312</b>	State Government
<b>S.1313</b>	Local Government	<b>S.1313</b>	Local Government
<b>S.1314</b>	Social security funds	<b>S.1314</b>	Social security funds
<b>S.14</b>	Households	<b>S.14</b>	Households
<b>S.15</b>	Non-profit institutions serving households	<b>S.15</b>	Non-profit institutions serving households
<b>S.2</b>	Rest of the World	<b>S.2</b>	Rest of the World
<b>S.21</b>	Member states and institutions and bodies of the EU	<b>S.21</b>	The European Union
<b>S.22</b>	Non-member countries and international organisations non-resident of the EU	<b>S.22</b>	Non-member countries and international organisations

## 6. LINKS IN PRACTICE

In theory links between the ESSPROS and National accounts can be established in a number of ways. In practice the data of the two systems are sometimes produced (completely) independently of each other. Where this is the case it is likely that differences will arise not only from theoretical differences but also from differences in production processes that relate to the use of alternative sources and estimation methods and differences in the allocation of data to similar classifications between the two statistical systems. In such cases comparing the data of ESSPROS and national accounts may provide little indication of the extent to which the data are consistent or the reasons for similarities or differences. In order to do this it is necessary to observe and compare the way the data of the two systems have been constructed from source data.

In practice, establishing clear links between ESSPROS and National accounts requires alignment of the data production processes of the two systems so as to remove differences that stem from different approaches to data production. Doing so ensures that data are consistent and that any differences observed can be explained by methodological differences.

In the Netherlands and Italy where the links between ESSPROS and National accounts have been established for some time the data production process are fully aligned such that, where possible, data reported in both systems use the same sources and estimation methods and that the classification of such data are consistent. A brief summary of how their production process are aligned are shown in Box 15. On the basis of these there several key elements to ensuring successful alignment can be identified:

- Extensive cooperation and sharing of information/data between those involved in the production of ESSPROS and of National accounts
- A common understanding of the concepts of the two statistical systems and the differences between them among all parties
- Existence of production processes which enables the mapping of source data to final data of the two systems to be compared and cross-checked

### Box 15: Practical examples – Aligned data production processes

#### **Italy:**

All data on social protection receipts and expenditures are managed centrally by a single team - the Social Protection Accounts unit. This team is responsible for compiling the quantitative data for ESSPROS core system, the Social Security Funds subsector (S.1314) of national accounts and the Italian Social Protection Accounts. Others are responsible for compiling data for other sectors of the national accounts and for the government finance statistics but there is extensive cooperation with these in regards to elaboration of the data on social protection receipts and expenditures to ensure there is full alignment between all data collections in terms of the source data and the methods of estimation used.

In practice, the process of data production involves the elaboration of a large number of files containing source data which are mapped to the classifications of national accounts and ESSPROS using bridge tables. Such bridge tables enable data to be reported in a manner which is fully consistent between data collections and transparent.

#### **The Netherlands:**

The team responsible for producing the ESSPROS data is also responsible for the production of the national accounts data related to social benefits. The data production process for both are integrated and aligned. The process is such that the data for the two systems, where possible, derive from the same sources to ensure consistency.

During the data production process a series of output tables reporting data by sector and by scheme are produced which identify the classifications used for each specific scheme in the data for national accounts and in the data for ESSPROS. Essentially this provides a detailed mapping between ESSPROS and national accounts in terms of where the data for each scheme are reported such that the two can be cross-checked.

However, more detailed data than is presented in such tables is required in ESSPROS and national accounts. For this reason it is necessary to return to the relevant more detailed source data to obtain the figures to compile both ESSPROS and social benefits for national accounts (e.g. detailed profit and loss accounts). In some exceptional case even more detailed sources of the organisations providing social protection may be necessary (e.g. administrative data). For example, this would be the case if unemployment benefits when to be split between full, partial and anticipated benefits. There therefore exists a one-to-one relationship between figures in the detailed source data and scheme level data in ESSPROS.

Even if data production processes are fully aligned there is still the possibility that data made available publically are not be fully consistent due to differences in schedules according to which data (new and revised) for the two systems are delivered to Eurostat and subsequently disseminated.

The timeframe for delivery of National Accounts data to Eurostat is laid out in the ESA 2010 transmission programme<sup>17</sup> along with the accounts, tables and levels of breakdown required and the extent to which different elements of the data are compulsory or voluntary. There are four tables in defined in this programme which include annual data associated with social benefits:

- Table 2: Main aggregates of general government
- Table 8: Non-financial accounts by sector
- Table 9: Detailed tax and social contribution receipts by type and receiving subsector
- Table 11: General government expenditure by function

The timetables according to which these tables of data for National accounts and the quantitative data of the ESSPROS core system are delivered to Eurostat differ (Table 17). As the quantitative data of the ESSPROS core system is delivered in June and released in October it will be fully consistent with the 1<sup>st</sup> release of the main data for National Accounts (Table 2) delivered in March and disseminated in April. However, it will not be consistent with the 2<sup>nd</sup> release of the main data for National Accounts (Table 2) delivered in September and disseminated in October and the corresponding COFOG data (Table 11) delivered in December and disseminated the following January. The implication of this is that even if the production of ESSPROS data is aligned with that of National accounts, the data disseminated by Eurostat are never fully consistent due to the fact that the releases made available are based on different revisions.

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<sup>17</sup> See <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-01-13-429-3A-C>

**Table 17: Deadlines for delivery and dissemination of data for National accounts and ESSPROS**

	<b>Delivery of data for year N</b>	<b>Dissemination of data for year N</b>
<b>National accounts (ESA 2010)</b>		
Table 2 – 1st release	Mar N+1: time lag 2 months	Apr N+1: time lag 3 months
Table 2 – 2nd release	Sept N+1: time lag 9 months	Oct N+1: time lag 10 months
Table 8	Sept N+1: time lag 9 months	Oct N+1: time lag 10 months
Table 9	Sept N+1: time lag 9 months	Oct N+1: time lag 10 months
Table 11	Dec N+1: time lag 12 months	Jan N+2: time lag 13 months
<b>ESSPROS</b>		
Core System: Quantitative Data	June N+2: time lag 18 months	Oct N+2: time lag 22 months