

**Updating of the SNA-93,
issue 19: MILITARY EXPENDITURES**

Advisory Expert Group's (AEG) recommendations of 05/2004:

- Military weapon systems are to be treated as gross fixed capital formation (instead of intermediate consumption).
- Defence GFCF should be presented separately from other types of GFCF.

German opinion:

The Federal Statistical Office is not in favour of the AEG recommendations on military expenditures because of practical and of methodological reasons:

- a) One problem is the treatment of unused, but after some time unserviceable ammunition. Taking the view that this too serves the production of defensive services, the discarded ammunition could be treated as intermediate consumption. Another possibility is to book the discarded munitions as withdrawal from inventories (valued at replacement costs). Given that in peace time there is an almost continuous flow of entries into and withdrawals and losses from inventories, the changes in inventories will be nearly zero (due to the replacement cost valuation). By contrast, the rules of the present SNA-93 lead to high expenditures. This has a big impact on lending/net borrowing of general government, which is not acceptable in the European Community considering the excessive deficit procedure.
- b) It would seem logical to show separately in the SNA-93-rev1 not only defence GFCF, but also defence assets.
- c) A general practical problem is the information basis to estimate the amount of military weapon systems destroyed in combat, which should be treated as other changes in volume. This applies as well to ammunition etc used in combat, which has to be booked as intermediate consumption.
- d) In addition, there is a lack of statistical information in Germany about the detailed commodity breakdown of the military weapon systems for calculating capital consumption.

A more general point is that by the new treatment both, GDP as well as net lending/net borrowing of general government are substantially affected. This is a clear indication, that the proposed new treatment is a major change of the SNA-93, which has to be avoided. In addition, the treatment of certain parts of military equipment was changed already in the SNA-93. From this we derive that, according to the general revision principles, this issue is to be excluded.