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Geneva, 6-9 May 2014

Report

Note by the Secretariat

Summary

The Meeting of Group of Experts on National Accounts, thirteenth session, 6-9 May 2014 was organized following the recommendations of the Group of Experts on National Accounts, eleventh session, Geneva, 30 April – 4 May 2012 (ECE/CES/GE.20/2012/2) and the provisions in the Programme of Work of the Statistics Sub-programme for the Biennium (2014-2015) (ECE/CES/2013/15).

The present document is the report of that Group of Experts, and is provided to inform the Conference of European Statisticians of the organization and outcomes of the meeting.

I. Introduction

1. The Meeting of the Group of Experts on National Accounts was held in Geneva on 6-9 May 2014. It was jointly organized with Eurostat and the Organization for Economic Co-operation and Development (OECD). The meeting was attended by representatives from Armenia, Austria, Azerbaijan, Belarus, Bosnia and Herzegovina, Canada, China, Croatia, Czech Republic, Finland, France, Georgia, Germany, Hungary, Iceland, Ireland, Israel, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Mexico, Mongolia, Montenegro, Netherlands, Norway, Poland, Republic of Korea, Republic of Moldova, Romania, Russian Federation, Serbia, South Africa, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, United Kingdom, United States of America and Uzbekistan.

2. The meeting was also attended by representatives from the United Nations Economic and Social Commission for Western Asia (UNESCWA), the United Nations Statistics Division (UNSD), the World Trade Organization (WTO), the Eurasian Economic Commission (EEC), European Central Bank (ECB), the European Free Trade Association (EFTA), the European Commission (Eurostat), the Interstate Statistical Committee of the Commonwealth of Independent States (CIS-STAT) and OECD. Mr. J. Vopravil of the Czech Republic attended as consultant at the invitation of the Secretariat. Mr. I. Mazrekaj and Mr. I. Berisha attended the meeting as invited experts.

3. The provisional agenda was adopted.

4. Mr. Brent Moulton (the United States) chaired the session.

II. Organization of the meeting

5. The following substantive topics were discussed on the basis of presentations, invited papers and supporting papers:

A. First module: Special Session for Eastern Europe, Caucasus and Central Asia, South East Europe and other interested countries

- Progress with national implementation plans for the System of National Accounts, 2008 (2008 SNA)
- Update of the regional recommendations and further work to support implementation of the 2008 SNA

B. Second Module: Expert Group on National Accounts

- Challenges and approaches to the implementation of the 2008 SNA
- Expanded accounts for the household sector including non-profit institutions, serving households (NPISH)
- Measuring non-observed economy: informal and illegal
- Globalization and national accounts: accounting for global production
- Future work and adoption of the report
- Other business

III. Summary of the main conclusions reached at the meeting

6. Recommendations for future work are given below. The detailed summary of the discussion on the above topics will be presented in a separate annex to this report. All documents for the meeting are available at:

<http://www.unece.org/stats/documents/2014.05.sna.html>

A. First module: Special Session for Eastern Europe, Caucasus and Central Asia, South East Europe and other interested countries

7. Significant progress towards implementation of the 2008 SNA has been achieved by the countries in Eastern Europe, Caucasus and Central Asia and South East Europe (SEE). Finalization of the national programmes for improvements affecting measurements of gross domestic production (GDP), Gross national income (GNI) and other basic indicators continues to be the first priority of work in the region. In addition a number of key areas for further work were identified:

- Using an integrated approach for strengthening the statistics production process.
- Harmonization of national accounts statistics with other economic statistics (such as Balance of Payments and Government Finance Statistics), including issues related to sectorization.
- Revision and publication of time series, including communication with users and main stakeholders.
- Data sources and coverage, including improving of statistical business registers and basic statistics.
- Measuring of imputed rents for owner occupied housing.
- Training involving experts from national statistical offices, central banks and ministries of finance.

8. The participants agreed that UNECE in cooperation with other partner organizations should continue to support implementation of the 2008 SNA in the countries through organization of workshops, provision of expert support and training. Countries asked UNECE to establish a mechanism for sustainable provision of technical assistance.

9. A workshop including representatives of statistical offices, ministries of finance and central banks should be organized in the course of 2015. The workshop should focus on institutional arrangements and harmonization of key macroeconomic statistics.

10. A special session will be organized in spring 2016 to address issues of common interest to the region. Possible agenda items include: measuring imputed rent for owner occupied dwellings and financial and insurance services.

B. Second Module: Expert Group on National Accounts

11. The participants emphasized the importance of a good communication strategy for the 2008 SNA revision. Statistics Canada, in consultation with the Steering Group on National Accounts (SGNA) and the Intersecretariat Working Group on National Accounts (ISWGNA), will develop a generic presentation and an underlying paper, which to assist

countries in their dialogue with main users. Relevant experience of countries that provided presentations to the meeting will be taken into account.

12. Ways of sharing experience on best practices in engaging stake-holders in the revision process, communication materials and tools should also be explored. UNECE in consultation with the SGNA will propose follow up activities.

13. Countries recognized the benefits from sharing experience on data sources and compilation techniques developed during the implementation of the 2008 SNA changes, such as expanding the assets boundary and measuring financial services. They also expressed support for ongoing work to expand the household sector accounts with distributional aspects.

14. Participants expressed interest in sharing information on data sources, methods and assumptions applied in measuring non-observed economy. A group composed of Mexico, Norway, Netherlands, United States, OECD, Eurostat and UNECE will consider follow up activities.

15. Following the request of the Conference of European Statisticians (CES), UNECE jointly with Eurostat and OECD will organize a special meeting of the Group of Experts on National Accounts to discuss practical experience with data collection and compilation methods in respect to global production arrangements. The meeting will take place in the end of June 2015 and will be prepared in consultation with the SGNA and the Task Force on Global Production.

16. A further meeting of the Group of Experts on National Accounts will be organized on 4-6 May 2016. The following topics were proposed for the agenda of the 2016 meeting:

- (a) Measuring Human Capital
- (b) Statistical units and analytical use of supply-use and input-output tables
- (c) Institutional arrangements for the production of national accounts
- (d) Non-observed economy
- (e) Globalization issues
- (f) Assets boundary: mineral exploration

17. The following countries and international organizations expressed interest in organizing or contributing to the sessions for the 2016 meeting: for topic (a) Statistics Norway and the Task Force on Measuring Human Capital (session organizer), for topic (b) OECD (session organizer), for topic (c) the United States Bureau of Economic Analysis (BEA) (session organizer) and UNESCWA for topic (f).

18. This report was adopted at the Meeting of the Group of Experts on National Accounts held in Geneva on 6 - 9 May 2014.

IV. Summary of discussions

A. First module: Special Session for Eastern Europe, Caucasus and Central Asia, South East Europe and other interested countries

Documentation: ECE/CES/GE.20/2014/15, 16, 19 and 27.

19. The Special Session was organized by UNECE and chaired by Mr K. Wass, EFTA. The module was divided into two items:

- Item 2. Progress with national implementation plans for the 2008 SNA
- Item 3. Update of the regional recommendations and further work to support implementation of the 2008 SNA

1. Item 2. Progress with national implementation plans for the 2008 SNA

20. The session discussed the progress made and challenges in the implementation of the 2008 SNA in the EECCA and SEE countries. Papers and presentations were made by Belarus, Mongolia, Russian Federation, Serbia, Tajikistan and UNECE. The discussion was also based on two room documents provided by UNECE: Recommendations for the 2008 SNA implementation in the EECCA and SEE countries, and Conclusions of the Workshop on the Implementation of the 2008 SNA and the Government Finance Statistics Manual.

21. All countries underlined in their presentations that support from other countries and international organizations, exchange of experience and participation in international training workshops are prerequisites for the successful implementation of the 2008 SNA. In line with the UNECE regional recommendations, a number of countries have established inter-agency working groups to ensure good collaboration, facilitate data exchange, harmonisation of the use of international classifications and a systematic review and revision of survey questionnaires. However, there is a need to further strengthen these working groups and to exchange experience between countries on their actual arrangements and functioning. The presentations also pointed to some key areas for future work, such as improving supply and use tables and developing financial accounts. The availability of good quality data sources is not self-evident and requires constant work in most countries.

22. After the country presentations UNECE presented a summary of the progress with the regional recommendations for the 2008 SNA implementation in ECCA and SEE countries, including the challenges faced and future plans for improvements. The presentation was based on the updated national implementation plans that countries sent to UNECE in spring 2014.

23. The following points were made during the discussion:

- Global Assessments of national statistical systems, carried out by UNECE with regional partners, draw attention to coordination issues. They underline, for instance, that inter-agency working groups should not only focus on the 2008 SNA but also discuss the implementation of the sixth edition of the balance of payments manual (BPM6) and the government finance statistics manual (GFSM) 2014. The groups should support work both at the expert and decision making levels. If the new standards are not implemented in a systematic and planned way, coherence of statistics suffers and the related differences need to be explained to users.
- Countries move at different pace and as a result there will be a reasonably long period when different methodologies are used (1993 SNA and/or 2008 SNA). This will inevitably hamper international comparability. Important role of UNECE and

other international organizations is to establish a mechanism for provision of sustainable support to countries that risk lagging behind in the implementation of the new standards.

- Lack of resources is a major challenge for national statistical offices (NSOs), and the resource requirements of the 2008 SNA implementation should be communicated to the body responsible for the NSO's budget. The government also needs to be well informed of the benefits of moving to the 2008 SNA. There are some cases in the region where additional recourses were received for this work.
- Inclusion of illegal activities in national accounts should be further improved. Most countries compile estimates of activities related to drugs and prostitution, whereas the coverage of other illegal activities varies across countries.
- Maintaining sufficient length of time series while implementing the new standards is challenging and posed a number of questions such as: how far back should revisions be carried in annual, quarterly and monthly series, how to communicate the revisions to users, and which methods to apply? Users often apply modelling, which requires long time series. Conversion keys between new and old standards are useful, but may pose problems if users apply them to build their own time series differing from official figures.

24. The Chair noted that the region has made notable progress in the 2008 SNA implementation even though challenges and methodological issues remain to be solved in the coming years. He underlined the need to focus the 2008 SNA implementation first on changes that have the biggest impact on GDP. However, having both short-term and long-term goals is important. Countries should not wait till they solve all the issues with GDP before starting work on sector and financial accounts. This will improve the overall consistency and usefulness of the data. Successful institutional organization, communication and cooperation in the 2008 SNA implementation are essential for the coherence of macroeconomic statistics.

2. Item 3. Update of the regional recommendations and further work to support implementation of the 2008 SNA

25. During this session international organizations active in the region provided an overview of their work in support of the 2008 SNA. Presentations were given by UNSD and CIS-STAT and a room document Support for Implementation Strategy for 2008 SNA and Economic Statistics in the Arab Region was provided by ESCWA. The discussion was moderated by Mr G. Gamez, UNECE.

26. UNSD presented the Programme on Integrated Statistics and its links to the implementation of the 2008 SNA and the System of Environmental Economic Accounting (SEEA). The integrated approach pays specific attention to coherence of statistics and managerial issues, such as institutional arrangements, availability of resources, coordination of work and efficient communication. CIS-STAT presented key issues in the implementation of the 2008 SNA for the Commonwealth of Independent States (CIS). UNESCWA informed the meeting about their implementation strategy for the 2008 SNA and Economic Statistics in the Arab Region. They highlighted especially the importance of interaction between data users and producers, integrated statistics approach, training and study visits and improvement of administrative data use.

27. The following points were made during the discussion:

- Coordination is one of the most important issues in the 2008 SNA implementation. While NSOs are implementing the 2008 SNA, Central Banks are implementing the BPM6 and Ministries of Finance - the GFSM 2014. Regional training should be

organised for these three agencies to discuss dissemination and communication and ways to solve challenges by working in a coordinated way.

- Many future challenges relate to the availability and quality of data sources. Cooperation between producers of statistics and producers of administrative data is, therefore, crucial. A high quality business register is a potential tool for improving data quality and should be widely used for statistical production.
- Integrated approach calls for a cultural change in statistical production and moving away from the stovepipe approach that focuses on an individual statistic. All available statistics should be under review to achieve good quality national accounts. The quality of national accounts can only be as good as the quality of basic statistics.
- The Fundamental Principles of Official Statistics and the new standard for statistical production, the Generic Statistical Business Process Model developed by the UNECE High-Level Group for the Modernisation of Statistical Production and Services, are meant to support the overall quality of statistical production.
- Global Assessments focus on integration of the statistical system by analysing all its building blocks: institutional and legal frameworks, organizational aspects, production processes and finally the output. Therefore, Global Assessments strongly support applying the integrated approach.
- UNECE will launch new capacity building activities with the support of a UN Development Account Project aiming to help countries implement the recommendations of Global Assessments. The project will focus on countries priorities with a specific attention paid to integration and coherence of statistics.

28. The rest of session was organized as a round-table discussion with CIS-STAT, EFTA, UNECE and UNSD serving as panellists. The following points were made during the round-table discussion regarding the support to the 2008 SNA implementation:

- Estimates of imputed rent of owner occupied housing needs to be addressed in the future. This has a potentially large effect to GDP as most people own their houses in this region, but currently only few countries include these estimates in GDP. One of the reasons was because the housing markets were not active enough for making reliable price estimates. Review of existing methods and adjusting them to the region specifics will be needed. Countries asked UNECE to organize training sessions on imputed rent.
- Conducting special price surveys for estimating the market value of housing could be useful. For instance, Ukraine carried out such a survey and plans to revise their figures back to 2001.
- Price indices for housing markets are a challenge in general. The Handbook on Residential Property Prices Indices was published in 2013 and provides countries with practical guidance for the compilation of these statistics.
- Some countries aim at producing full balance sheets. This will be challenging for example due to the difficulties of valuing land owned by the government. Thus, countries agreed that the first priority should be to compile balance sheet for financial assets.
- In some countries data are collected by regional offices and sent to the central office only in an aggregated form. This underscores the importance of training and applying coherent methodologies throughout the different regions.
- Small companies and individual entrepreneurs are getting more and more important for the economic development in the region. They are usually first to react to any

changes in the economy which is why they should be covered in the business register and economic statistics.

- Some countries of the region have already consulted their users regarding the 2008 SNA. They noticed that the user needs vary greatly so user segmentation would support effectiveness of communication. It will be important to clearly inform users about the timing of revisions, especially if the Central Bank and the NSO apply a different schedule. The generic presentation for informing users about the 2008 SNA revision, to be presented later at this meeting, could serve as a communication tool for all countries, including the countries of Eastern Europe, Caucasus and Central Asia.
- Sharing of experience relating to inter-agency working groups is important. While some countries have involved main users of statistics in the inter-agency groups, others have organized ad hoc user consultations. In some cases, lack of resources prevents from achieving results, such as producing the needed data, even though cooperation works well.
- There is also a need for close internal cooperation between departments within the NSO. Special seminars would help staff members understand what the integrated approach means, and would also support efforts related to modernization of statistical production.

29. The Chair concluded the third item by underlining the importance of national collaboration in issues with significant impact on the quality of national accounts, e.g. imputed rent, valuation of assets, and coherence between macroeconomic data sets. These should be discussed in each country among the three major players of macroeconomic statistics (NSO, Central Bank and the Ministry of Finance). An event to bring those organizations together from all countries in the region should be organized in 2015. In 2016, the special session of the Group of Experts on National Accounts will follow up on the raised issues and will also present success stories in the 2008 SNA implementation.

B. Second Module: Expert Group on National Accounts

30. The Second Module: Expert Group on National Accounts was organized in four separate items:

- Item 4. Challenges and approaches to the implementation of the 2008 SNA
- Item 5. Expanded accounts for the household sector including NPISH
- Item 6. Measuring non-observed economy: informal and illegal
- Item 7. Globalization and national accounts: accounting for global production

1. Item 4. Challenges and approaches to the implementation of the 2008 SNA

Documentation: ECE/CES/GE.20/2014/3, 4, 5, 15, 17, 18, 24, 26 and 28.

31. The session was organized by Canada and chaired by Mr. J. Tebrake. The session discussed specific challenges of countries in implementing the 2008 SNA and shared innovative solutions for addressing these challenges. The session also highlighted best practices among countries to facilitate learning from each other. There were three sub-items in this session:

- Sub-item 4.1. Overall 2008 SNA Implementation
- Sub-item 4.2. Assets boundary
- Sub-item 4.3. Financial services

Sub-item 4.1. Overall 2008 SNA Implementation

32. The first sub-item included papers by the Netherlands, Ukraine and Canada, a room document by CIS-STAT and a presentation by UNSD. OECD acted as discussant of this sub-item.

33. UNSD presented the decisions of the 45th session of the United Nations Statistical Commission (UNSC) that had expressed appreciation to ISWGNA, the Advisory Expert Group on National Accounts (AEG), UN regional commissions including UNECE, other organizations and countries for giving priority to issues emerging from the 2008 SNA implementation and for providing technical assistance to facilitate the work. The Netherlands shared their experience and challenges in the 2008 SNA implementation from the planning phase to communicating with users. Canada introduced a generic presentation on the 2008 SNA implementation to be used in communication with different stakeholders. This generic presentation was prepared at the request of the 2012 meeting of the Group of Experts on National Accounts and after further improvement based on the feedback received at the meeting will be made available for use by the countries. Ukraine discussed the main changes in the Ukrainian national accounts resulting from the 2008 SNA revision, and the room document from CIS-STAT gave an overview of responses to their survey on the 2008 SNA implementation in the CIS region.

34. The following points were made during the discussion:

- It is important to have a good general strategy on how to approach a major revision in statistics. Prioritization regarding what to implement first is crucial since not all changes can be implemented at once. Usually it is advised to put the focus on issues that have the largest effect on GDP volume and structure. In addition, primary data needs of the users and available data sources should be considered.
- Carrying out major revisions is resource intensive. Compiling new estimates while maintaining the existing estimates is often the responsibility of the same people. Sufficient human capital is a key element of successful implementation.
- Communicating the changes brought by the 2008 SNA to users is a difficult task. First the key users need to be identified and engaged by using language that they understand. In the Netherlands special spokesmen are used to communicate to the public e.g. on revisions. These spokesmen are specialized in communication and they are each responsible for a certain area of statistics for which they are trained by statisticians who are specialists of that area.
- One challenge in user communication is to overcome the perception that revisions are intended to correct errors in the national accounts. Sufficient documentation explaining the reasons for the revisions, data sources and methodologies need to accompany the revised data. For instance, the Netherlands first published the 2008 SNA figures for one year, 2010, and explained the revisions to the audience using these data in comparison with data following the 1993 SNA.
- It was noted that the transition to the 2008 SNA currently compromises international comparability since while some countries still follow the 1993 SNA, others already apply the 2008 SNA. To avoid such at the national level, the implementation of the 2008 SNA and other new standards needs to be carefully coordinated among all involved government agencies.

- Back casting in order to maintain as long time series as possible is a big challenge. It is a question how far back estimates should be carried to provide good user service. Some time series breaks are inevitable and communicating about them is especially important. Due to limited resources some countries have selected to first revise time series for a shorter period and produce longer series with some delay.
- Countries consider the generic presentation for communicating the 2008 SNA transition as a useful tool and are looking forward to receiving the final version.

35. The Chair noted that the 2008 SNA implementation is progressing well in countries. Implementation of the 2008 SNA is like renovating a building: There are useful things to maintain and, thus, not everything should be destroyed and replaced by completely new structures. Instead, it is better to proceed in a more manageable way of doing one room at a time.

36. Establishing a good communication strategy is one of the preconditions for successful SNA implementation. National accounts compilers should not just explain the methods used, but also provide examples showing how useful the information can be or giving idea of the magnitude of the revision. Continued exchange of good practices in communication is highly encouraged, and SGNA should consider how to develop a central repository of the 2008 SNA communication materials to allow easy access to relevant examples.

37. The generic presentation will be finalized in consultation with SGNA. It should highlight the importance of cooperation between government agencies and engaging different stakeholders to the 2008 SNA implementation. Countries were invited to contribute to the finalization of the generic presentation after which it will be circulated to all NSOs and ISWGNA.

Sub-item 4.2. Assets boundary

38. The second sub-item included papers by the United Kingdom and OECD. The United States (BEA) acted as discussant.

39. The discussant noted that thanks to sharing of experience on measuring research and development (R&D) and other types of intellectual property products (IPPs) for a number of years, the harmonization of countries' national accounts seems to be increasing in this regard. In their presentation, the United Kingdom addressed the strengths and limitations of survey and patent based approaches on measuring R&D, and considered key questions such as estimating how much R&D is there, who uses it and how long is it useful for (service life). OECD presented the results of the survey on IPPs noting that all countries intend to follow the methods suggested by the OECD Handbook on IPPs and the related Eurostat R&D task forces, and that a large number of countries have not needed new survey data for this purpose.

40. The following points were made during the discussion:

- International efforts, such as the OECD Handbook, the related satellite accounts and sharing of experience among countries have helped using more harmonized methodologies in measuring and capitalizing R&D.
- The key issue in R&D service lives is that they differ from other capital. R&D service life lasts until the IPP is obsolete, in other words until it does not benefit its owner any more. It seems that, regardless some differences, the estimated service lives do not vary much between countries.
- The treatment of unsuccessful R&D that does not lead to any patent or is otherwise not useful raised some concern and requires further consideration internationally.

There are no administrative data sources available for R&D not leading to patents and surveying is the only option.

- Dealing with the ownership of IPPs, both within multinational enterprises (MNEs) and in government funded projects is a complex and difficult issue, where further international guidance and harmonization is needed.
- National accounts compilers and the authors of the Frascati Manual update have worked in collaboration under the OECD Working Party of National Experts on Science and Technology Indicators (NESTI). The benefits of the close coordination between these expert groups were underlined. The Frascati Manual is being updated in a collaborative effort.
- Quite a few NSOs use Patent Authorities' data. These data allow estimating the service life of IPPs since patents usually need to be regularly renewed.

41. In the conclusions, the Chair noted that, as shown by the presentations, administrative or non-survey data may help estimate R&D and other IPPs, e.g. using patent data for measuring service lives. International organizations have a central role in collecting good practices, harmonizing country surveys, bringing experts together to agree on methodologies and facilitating exchange of information. When there are many questions to be solved in a short period of time learning from each other is the efficient way to overcome difficulties.

Sub-item 4.3. Financial services

42. The third sub-item included papers by Azerbaijan, Israel, United States (BEA) and Germany. The Netherlands acted as discussant.

43. Azerbaijan presented their activities, achievements and future plans for the 2008 SNA implementation and their approach to estimate financial intermediation services indirectly measured (FISIM). Israel shared experience in implementing the 2008 SNA recommendations for estimating the output of non-life insurance. The United States (BEA) presented changes made in the measurement of pensions in their national income and product accounts, and Germany discussed the linkages between subprime crisis and government debt.

44. The following points were made during the discussion:

- Analysing the impact of different reference rates for FISIM calculations would be interesting. Some countries have selected internal reference rates separately for national and foreign currency while others use a weighted average. It was mentioned that negative FISIM on deposits or liabilities may be economically feasible if it does not continue for many years. Issues related to FISIM are difficult to communicate to users and may require particular consideration by NSOs.
- The experience of some countries shows that the estimates for the output of non-life insurance can be improved significantly by applying the expectation approach and estimating separately by class of insurance.
- Compiling constant price estimates for non-life insurance was considered challenging, particularly in cases where the reliability of price indices would require improvement. As insurance policies change frequently, it is difficult to say whether there is a price or a quality change.
- Re-insurance needs to be discussed more. It is difficult to measure because the related premiums are not as stable as those of normal insurance.

- While defined benefit schemes are disappearing in private industries, they are still widely used in the public sector where the use of defined-contribution plans seems to be growing.
- The question was raised if in the rare case of overfunded plans an interest flow from the plan to the sponsor should be imputed as it is done, for instance, in the United States to retain symmetrical flows.
- The selected discount rates affect the results, especially for pension entitlements. Therefore making extreme estimates should be avoided.
- The presentation by Germany illustrated how using several statistics and analysing their relation can help study linkages in the economy e.g. of subprime crisis and government debt.
- The participants were informed that the new Handbook on financial production, flows and stocks in the system of national accounts is available on the websites of ECB and UNSD.

45. The Chair thanked all the presenters for the beneficial contributions that support learning from each other for instance to select a reference rate for FISIM, define the right length of moving average for non-life insurance, assess the sensitivity of final estimates of pension entitlements to decisions on discount rates and take into account limitations of SNA such as in showing holding gains in the accounts. These examples underline the value of sharing good practices, discussing the estimates used in different countries and carrying out international methodological work.

2. Item 5. Expanded accounts for the household sector including non-profit institutions, serving households (NPISH)

Documentation: ECE/CES/GE.20/2014/7,22,24 and 25.

46. The session was chaired by Mr B. Moulton, the United States (BEA). Papers and presentations were made by Canada, Netherlands and OECD, and the European Central Bank. Ireland acted as discussant of this item.

47. The session addressed practical issues that arise under the 2008 SNA in preparing data on NPISH. It also examined recent efforts to expand the accounts to include information on the distribution of income and final consumption expenditures, in line with the “Beyond GDP” initiative.

48. OECD provided an overview of their work relating to households: 1) the household dashboard providing timely indicators, 2) drivers of differences between GDP growth and real household (adjusted) disposable income, and 3) distribution of income, consumption and savings across household groups. The Netherlands introduced their two research projects on the household sector aiming to give a picture beyond the macro view. ECB underlined that the financial crisis increased interest in measures of the economic situation of households, including distributional aspects. Canada addressed some practical issues in compiling data for the NPISH sector account released as part of their revised set of quarterly national accounts in October 2012.

49. The following points were made during the discussion:

- Participants agreed on the value of the integrated approach to the household sector as it helps in providing a complete picture of all dimensions of households from the national accounts’ perspective i.e. combining data on income, production, expenditure, savings, investment and financial issues.

- Measuring disparities in income and consumption is useful for users. Developing time series will be important for analysis of trends.
- Looking at the intersection of macro and microdata on households provides information on a number of aspects: in addition to income inequality it informs about demographic change and the effects of ageing society on economic performance.
- The presentations emphasized the need for good communication. Statistics on households should be visualised with graphs etc. to show the importance and the different uses of data.
- Removing non-profit institutions from the household sector clarifies the picture of households' situation, but there is also interest in the non-profit sector itself. Measuring non-profit institutions is an area that suffers more from weak data sources than other sectors.
- The Handbook on non-profit institutions is currently being updated to comply with the 2008 SNA, and it will be circulated for comments in the course of 2014.
- The OECD Informal Expert Group on Distributional Information on Household Income, Consumption, and Savings will update the collected household data for a more recent year and plans to come up with time series of indicators on households' economic resources. The Group also investigates in-depth why there are negative savings in some of the results.

50. The Chair thanked everyone for the valuable presentations and discussion. Countries expressed support for the on-going work to expand the household sector accounts with distributional aspects.

3. **Item 6. Measuring non-observed economy: informal and illegal**

Documentation: ECE/CES/GE.20/2014/6,8,9 and 25.

51. The session was chaired by Ms A. L. Brathaug, Norway, and organized jointly by OECD and UNECE. Papers and presentations were made by Canada, Mexico, Mongolia and Netherlands. Hungary acted as discussant of this item.

52. During the session, countries shared experience on how they ensure exhaustive coverage of their national accounts, i.e. how they estimate the economic activities that should be part of GDP but for different reasons are not well captured in basic statistical sources.

53. Mexico described the measurement of informal economy under the framework of their national accounts and in line with international recommendations. Canada introduced the most recent underground economy estimates based on the three methods of measuring GDP (expenditure-, income- and production-based). Mongolia presented their survey and estimates of the size of non-observed economy, including separate estimates of goods produced for own final consumption. The Netherlands presented a categorization of the various methods for estimating the non-observed economy and their advantages and disadvantages, including a description of the activity specific method used by them.

54. The following points were made during the discussion:

- The participants considered the uses and users of data on the non-observed economy. The main users include government, policy makers, tax officials, the academy and the general public. The uses include: 1) improving exhaustiveness and the quality of national accounts, 2) completion of taxes by focusing tax research on the right areas, 3) assessment of employment levels, 4) consideration of social

aspects of informal economy, and 5) designing policies to convert informal activities, for instance into employment, in formal activities.

- It was noted that users often think that the size of non-observed economy is underestimated. Therefore, clear and extensive metadata on data sources, compilation methods and underlying hypothesis need to be made public. Those doubting the estimates could then better justify their criticism and point to any mistakes or areas not sufficiently covered in the estimation which in turn helps to improve the estimates.
- In most countries there seems to be no feedback regarding the estimates of non-observed economy from national accountants to the producers of basic statistics. Doing this could help to include certain corrections for non-observed economy already in basic statistics.
- Estimates of non-observed economy are not yet a regular part of official GDP figures in all countries. It was noted that the importance of the non-observed economy varies as do countries' interests for measuring it.
- A question was raised whether informal activities are also illegal as they are not reported to Tax Authorities, and how should the statisticians see the interaction between the informal and illegal economy.
- Exhaustiveness of national accounts could be improved in many countries by better consideration of small businesses. Some assume that more underground activities take place in unincorporated businesses, and take this into account in the estimates of non-observed economy.
- There is clear added value in discussing non-observed economy internationally – it allows an exchange of good practices and promotes harmonisation of estimates in this complex area.

55. The Chair concluded that the session brought up many ideas on possible data sources and their limitations, as well as on the techniques that could be used. Participants expressed interest in sharing information on data sources, methods and assumptions applied in measuring non-observed economy. Ways to share good practices and further harmonise the tools and estimates should be considered at SGNA.

4. Item 7. Globalization and national accounts: accounting for global production

Documentation: ECE/CES/2014/6, ECE/CES/GE.20/2014/12-14

56. The session was organized by the UNECE Task Force on Global Production. There were two sub-items in this session:

- Sub-item 7.1. Report from the Task Force on Global production and main findings in relation to factoryless production.
- Sub-item 7.2. Country experience on global production arrangements.

57. The first sub-item was chaired by Mr B. Moulton, the United States (BEA), and the second sub-item by Mr M. Connolly, Ireland.

Sub-item 7.1. Report from the Task Force on Global production and main findings in relation to factoryless production

58. The Task Force on Global Production provided two presentations based on chapters from the Guide to Measuring Global Production (the Guide). There was also a room document by the Task Force.

59. Under the first sub-item, Mr M. Connolly, Chair of the Task Force, gave an *overview of the progress of the Task Force work*, and informed the meeting of the status of the Guide. The presentation also covered a suggested programme for further work going beyond the current mandate of the Task Force. It includes issues such as price and volume measurement, expanding the typology of global production, branding, transfer pricing, merchenting of services, shared compilation methods and data exchange. To finalise its work, the Task Force will review all comments and feedback received in the global consultation and will reflect them in the Guide that will be submitted to CES for endorsement in June 2015.

60. Mr. M. de Haan, editor of the Guide, informed the meeting of the feedback received from the first international consultation on *factoryless goods producers* (FGPs) and presented the remaining open issues. The Task Force's conclusion that FGPs differ from traders/distributers and should be classified as a special case of manufacturers received support by the AEG. The implications for the International Standard Industrial Classification (ISIC) need to be further considered by the UN Classifications Expert Group. The following issues will require further consideration: 1) Is the output of FGPs a good?; 2) Should the international transactions be recorded under general merchandise or merchenting?; 3) What is the nature of the transaction between the contractor and the FGP, a service or a good?; 4) How does branding relate to FGPs?

61. The following points were made during the discussion:

- ISIC currently instructs classifying a unit that outsources its production process as if it continued doing the production itself. This applies to all activities but manufacturing, where an additional condition is that the outsourcing unit owns the material inputs needed in the process. The proposal of the Task Force meant that manufacturing is treated the same way as other activities.
- Regarding the nature of transactions between the contractor and the FGP, it was pointed out that, often in transport and communications, countries record similar subcontracting on a gross basis. In these cases, the principal typically sells the same product, bought as intermediate consumption from the subcontractor, with a higher value without doing nearly anything. A similar treatment for the transactions between contractor and FGP could be considered.
- Using the word "guidance" rather than the more definitive term "Guide" was discussed. The guidance provided in the report, however, complies with current international standards, and has a notable impact for instance on measuring imports and exports – in that respect it should be called a Guide.
- The Guide should be seen as a living document to be updated as more experience is gained.
- Since the Task Force concluded that there is a need to revise ISIC for the classification of FGPs, the issue needs to be agreed with the Expert Group on International Statistical Classifications. ISWGNA has actively collaborated with the Expert Group, but solving the difficult issue requires thorough consideration. The meeting discussed how to ensure smooth progress of the international consultations.
- Branding (as a marketing asset, a non-produced asset) under the 2008 SNA was discussed. The question is whether branding is linked to physical transformation of raw material into the final product, for instance if a good without a brand name is considered the same product when it has a brand name. Alternatively, branding could be seen as marketing. The issue of branding has not been thoroughly addressed by the Task Force but is on the SNA research agenda.

62. The participants of the meeting congratulated the Task Force for making good progress on a number of difficult issues discussed in the Guide, and complemented them for not getting overwhelmed by the many controversial topics that needed to be addressed. Countries were invited to send more case studies on FGPs to illustrate the practical issues involved.

Sub-item 7.2. Country experience on global production arrangements

63. The second sub-item was devoted to country experience in measuring different cases of global production arrangements. Czech Republic, Hong Kong/China, Mexico and United States made presentations. The Netherlands acted as discussant of this sub-item.

64. The United States presented their efforts to collect through surveys information on purchases and sales of contract manufacturing services and to identify FGPs. Mexico presented their work to rebase national accounts to 2008, including the experience of measuring for the first time the economic activity of global manufacturers in supplementary Supply and Use tables. Hong Kong/China shared their experience and challenges in compiling trade in goods and services statistics using the change of ownership principle. Finally, the Czech Republic presented the quantification of property income of non-residents and the challenges in ensuring conceptual compliance between the 2008 SNA and BPM6 standards.

65. The following points were made during the discussion:

- An OECD Expert Group on extended Supply and Use tables will explore with countries to what extent new types of breakdowns could be introduced in Supply and Use tables to better reflect global production. This could provide more information on the extent to which countries are integrated into global value chains, and shed light on foreign/domestic ownership, interconnectedness of economies and links of production and investment.
- The survey design used for identifying FGPs was discussed. The United States carried out some cognitive testing of the questionnaire among enterprises to find out what terminology would be most easily understood. The term outsourcing seemingly had a negative connotation to the respondents. Therefore, the direct investment survey uses the broad term “contract manufacturing services”. The survey then asks whether the unit owns the materials or not. It was noted that additional consideration of terminology to be used in surveys is needed for distinguishing between the different types of arrangements.
- The new question for national accountants is not so much what enterprises do but how they do it? Because of this changed focus sometimes the traditional classifications are not sufficient for the statistical treatment of global production arrangements. For example, classifying factoryless goods producers into wholesale trade is not an optimal solution for most users of statistics.
- The issue of the difference between international trade statistics and trade for national accounts and balance of payments purposes was raised. Since the respective guidelines differ in terms of the change in ownership principle, some countries provide two sets of trade statistics which requires more resources.

66. The Republic of Korea expressed their willingness to provide a case study describing how they apply the principle of change in ownership in trade in goods and services statistics in practice. Hong Kong/China also volunteered to provide a case study on their work in treating global production arrangements. Due to the level of openness in their economy, Hong Kong/China could illustrate with practical examples many of the challenging measurement issues covered by the Guide.

67. Participants supported the CES request to organize a special meeting of the Group of Experts on National Accounts to discuss practical experience with data collection and compilation methods in respect to global production arrangements. The meeting is planned to take place in the summer of 2015, and will be jointly organized between UNECE, Eurostat and OECD. It will be prepared in consultation with SGNA and the Task Force on Global Production.

68. The Chair noted that the presentations highlighted the difficulty of being strict in the guidance on global production arrangements; even obtaining information on the various global production arrangements is challenging, not to mention agreeing on their statistical treatment. The Chair thanked all countries for sharing their practical experience on many important issues, most of which are reflected in the Guide.
