Non-Observed Economy in National Accounts
Survey of National Practices

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Background

• Major developments:
• UNECE surveys
  – 1991: 9 countries
  – 2001/02: 29 countries
  – 2005/06: 43 countries
NOE Survey 2005/2006-Objectives

- Inventory of current methods and practices in estimating NOE
  - Definitions and concepts
  - Data sources
  - Estimation methods:
    - Production approach
    - Expenditure approach
    - Income approach
- Implications and effects on National Accounts

NOE 2005/2006 - 43 countries

- 16 EU members
  Austria, Belgium, Czech Republic, Estonia, Finland, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Spain, Sweden, United Kingdom
- 5 EU acceding and candidate countries
  Bulgaria, Romania, Croatia, The former Yugoslav Republic of Macedonia, Turkey
- 5 OECD countries – non-EU members
  Australia, Canada, Mexico, Norway, United States
- 11 CIS countries
  Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Ukraine, Uzbekistan
- 4 other countries
  Albania, Brazil, Mongolia, Serbia

• 2 do not estimate NOE - Japan, New Zealand
Preliminary results – share of NOE in GDP

- EU member countries
  - from ~ 1% to ~ 18.9% (from 6.6 to 18.9 among new EU members)
- EU acceding and candidate countries
  - from 10.2 % to 17.7 %, except Turkey (1.7)
- CIS countries - from 10.7 % to 31.6%

<table>
<thead>
<tr>
<th>Share of NOE in GDP</th>
<th>Armenia 2003</th>
<th>28.9</th>
<th>Moldova 2001</th>
<th>31.6</th>
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</thead>
<tbody>
<tr>
<td>Azerbaijan 2003</td>
<td>20.7</td>
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<td>Russia 2003</td>
<td>24.3</td>
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<tr>
<td>Belarus 2003</td>
<td>10.7</td>
<td>2003</td>
<td>Tajikistan</td>
<td>25</td>
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<td>Georgia 2004</td>
<td>28.3</td>
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<td>Ukraine 2003</td>
<td>17.2</td>
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<td>Kazakhstan 2003</td>
<td>21.6</td>
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<td>Uzbekistan</td>
<td>25-30</td>
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<td>Kyrgyzstan 2003</td>
<td>17.0</td>
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Analysis of the results

- NOE tabular frameworks:
  - T1 – T8: 1998-2000 EU Pilot Project on Exhaustiveness
  - N1 – N7: 2002-2003 EU Pilot Project on Exhaustiveness
- ECE tried to allocate the activities to the N1-N7 framework to allow comparison across countries
- A common framework of NOE (similar to T1-T8 or N1-N7) would be useful
Eurostat’s tabular framework (N1-N7)

- All activities of all producers
  - Not surveyed
  - Surveyed
    - Registered
    - Not registered
      - Obliged to register (underground) N1
      - Illegal producer N2
      - Economic underground
        - Informal
    - Not obligated to register N3
  - Misreporting N6
    - Other statistical deficiencies N7
      - Production for own final use (market producers)
      - Tips
      - Salaries in kind
      - Secondary activities
      - Non-response incorrectly handled or not all data asked

Preliminary results – types of NOE

Generally: the economic underground and informal activities (misreporting and unregistered producers) have a bigger share of NOE adjustments.

Sectors: construction, agriculture, trade, health care, education, transport, housing.

Most of the countries account for misreporting and other statistical deficiencies – tips, wages and salaries in kind, secondary activities, etc.

CIS countries - NOE estimated in most of the categories, except illegal activities.

Illegal activities – 13 countries estimate, most of them do not include in GDP (4 include)
Preliminary results – problems in CIS countries

- Lack of a conceptual framework
- Difficulties related to sample surveys
- Difficult to check the reliability of reported data
- Measuring illegal activities
- Large number of unregistered enterprises, irregular and individual activities
- High turnover of enterprises
- Unregistered employed persons
- Etc.

Conclusions from the survey

- Difficult to compare estimates across time and across countries
- In several countries a declining trend in size of NOE, in several countries fluctuating around the same level, in some countries increasing
- Countries are trying to be as exhaustive as possible in their GDP estimates
- NOE concentrated in economic underground and informal sector
- Common NOE framework would be useful
Further work

- Preparation of the new publication “Non-observed economy in National Accounts”
- For more information, please contact tiina.luige@unece.org

For information:

- It is planned to include a chapter on informal economy in the update of the SNA 93
- An outline for the chapter presented at the UNECE/OECD/Eurostat meeting on National Accounts (25-28 April 2006, Geneva),
  - paper no. 8 and 8 Add.1 on informal sector
  - paper no. 9 on illegal activities