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**STATISTICAL COMMISSION and ECONOMIC COMMISSION FOR EUROPE**

**CONFERENCE OF EUROPEAN STATISTICIANS**

Joint UNECE/EUROSTAT/OECD
meeting on national accounts
(Geneva, 30 April-3 May 1996)

## Report

1. A Meeting of National Accounts Experts, convened jointly by ECE, Eurostat and OECD, was held in Geneva from 30 April-3 May 1996. It was attended by Albania, Australia, Austria, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Norway, Poland, Republic of Korea, Romania, Russian Federation, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, The former Yugoslav Republic of Macedonia, Turkey, Ukraine, United Kingdom, and United States. Representatives of the United Nations Statistical Division (UNSD), International Monetary Fund (IMF), the Statistical Committee of the Commonwealth of Independent States (SCCIS) and the World Bank also took part in the meeting.

2. The meeting adopted the provisional agenda.

3. The meeting elected Mr. M. Calzaroni (Italy) as Chairman and Mrs. A. Hüttl as Vice-Chairperson to co-chair the meeting with Eurostat and OECD.

4. The following substantive topics were discussed at the meeting on the basis of papers prepared by Australia, Canada, Hungary, Iceland, Israel, Italy, Kazakstan, Latvia, New Zealand, Poland, Romania, Russian Federation, Sweden, Switzerland, United Kingdom, ECE, Eurostat, CIS and OECD:

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a) Experiences of Central and Eastern European countries in estimating the size of the hidden economy;
b) Adjustments to ensure exhaustiveness of GNP estimates in the EU Member States;
c) Valuation of stock and consumption of fixed capital in transition economies;
d) Boderline problems with institutional sectoring;
e) Proposals for the revision of COFOG;
f) Measuring output and productivity in the government sector;
g) Calculation and allocation of FISIM;
h) Implementation of the ESA 95 financial accounts in the EU Member States;
i) Review of the final draft of COICOP;
j) Harmonisation of the 1993 SNA and 1995 ESA questionnaires.

Recommendations for future work are given below. Other conclusions which the participants reached at the meeting on each of the above topics are reproduced in the Annex of this note.

5. Participants agreed that priorities with regard to future work should be given to the consideration of issues important for the implementation of the 1993 SNA. It was suggested that a detailed summary of national implementation plans, at least in OECD countries, be prepared. Discussion of certain topics from the agenda of the present meeting should be continued at future national accounts meetings. The following topics were of interest for possible inclusion in the agenda of the next meeting on national accounts:

- major problems with 1993 SNA implementation in countries;
- exhaustiveness of national accounts, hidden economy, illegal activities;
- valuation of fixed capital consumption and length of the service life of fixed assets;
- FISIM;
- COFOG;
- institutional sectoring, market vs. non-market production;
- constant price estimates, chain linking, rebasing;
- IMF manuals on money and banking and on government finance statistics, and their link with 1993 SNA;
- treatment of accruals in SNA and BoP;
- productivity of the government sector;
- intangible assets, non-financial, non-produced assets;
- deflation of high-tech products;
- national accounts data compilation from the EDP point of view;
- new SNA questionnaires.

6. The meeting recommended adding to the "activities of ECE" of sub-programme 3 the following: "Joint ECE/Eurostat/OECD Meeting on National Accounts in 1996/97" to consider priority subjects referred to in para. 5.

ANNEX

Other conclusions reached at the Meeting of National Accounts Experts
Geneva, 30 April-3 May 1996

1. The meeting was convened to discuss problems of implementation and further development of the revised SNA and to advise the Conference of European Statisticians on its future work in this field.

2. The meeting had before it discussion papers prepared by Australia, Canada, Hungary, Iceland, Israel, Italy, Kazakstan, Latvia, New Zealand, Poland, Romania, Russian Federation, Sweden, Switzerland, United Kingdom, ECE, Eurostat, CIS and OECD.

**a) Experiences of Central and Eastern European countires in estimating the size of the hidden economy**

Documentation: Papers by Italy, Kazakstan, Latvia, Poland, Romania, Russian Federation and OECD.

1. Transition countries are making good progress in developing estimates for the hidden economy. Work on covering hidden economic activites is regarded in a broader framework of improving exhaustiveness and reliability of national accounts estimates. Countries are aiming not only at adjusting the GDP figure for the hidden economy, but at reflecting these activities in the whole set of accounts and supporting tables. It was suggested that continuous estimates of the hidden economy could start to be produced and published. Some countries intend to include estimates for the hidden economy in the official GDP figures without explicitly showing the hidden economy component. There is work under way to cover hidden economic activities in quarterly and regional accounts.

2. Different approaches, used in estimating the hidden economy, usually draw on a number of various data sources and techniques (for example, employment data, household income and expenditure data, supply and use balances, customs statistics, special surveys' data, commodity flow techniques). The importance of a complete and up-do-date business register for exhaustive coverage of all economic activities was stressed. The use of "mirror" foreign trade statistics was mentioned as a potentially useful source of data for better covering activities of "shuttlers".

3. Although the use of multiple sources enables cross-checking and balancing, care should be taken to avoid possible double counting. Also, figures can be, for example, perfectly balanced in supply and demand balances while not accounting for production by small economic units. Reservations were expressed with regard to the reliability of data from the household budget survey, particularly when data on both income and expenditure are asked for from households.

4. Measuring illegal activities was regarded as important for better understanding economic and social processes in many transition and traditional market economies. However, even in countries with rather developed and reliable data sources the coverage of illegal activities, like production and sales of drugs, prostitution and illegal gambling, is

extremely difficult. A number of countries are developing approaches to reflect illegal activities in national accounts, at least from the expenditure side. The method of area sampling was mentioned as one possible way for improving the coverage of illegal activities. More research and practical work is needed in this area.

**b) Adjustments to ensure exhaustiveness of GNP estimates in the EU Member States**

Documentation: Paper by Eurostat.

5. The meeting was informed about Eurostat activities related to ensuring exhaustiveness of GNP estimates in the EU Member States. It was clarified that GNP estimates adjusted to legal requirements of the EU are calculated in current market prices only. Illegal activites, as they are defined in national legislation of the EU Member States, are excluded from the work on exhaustiveness. Some countries' experience has shown that the revision work may result in both upward and downward adjustments to national accounts aggregates.

**c) Valuation of stock and consumption of fixed capital in transition economies**

Documentation: Papers by Hungary and ECE.

6. Correct valuation of stock and consumption of fixed assets represents one of major unresolved problems in national accounts of transition countries. There is a general agreement that the continuation of use of methods from the period of central planning would result in incorrect, from the economic point of view, estimates of the value of fixed capital on the basis of which no meaningful figures for fixed capital consumption could be obtained. Some countries do not envisage production of depreciation figures for the market sector. Consumption of fixed capital will continue to be calculated for the government sector and other non-market production valued at cost. The value of the stock of fixed assets in the market sector might be calculated for business accounting purposes only.

7. There are different ways in which countries are trying to cope with the problem of estimating the value of stock and consumption of fixed capital under conditions of high inflation and profound structural changes in the economy. Regular annual revaluations of fixed assets are carried out at the enterprise level in many transition countries, on the basis of which consumption of fixed assets is calculated. In one country, where revaluations are carried out at the beginning of the year, revalued figures are used to make quarterly estimates for fixed capital consumption which are then indexed by the unvestment goods price index in the course of the year to arrive at current price estimates of capital consumption.

8. It was stressed that the introduction of the perpetual inventory method (PIM) is extremely difficult because very little information on the service life of fixed assets is available. It was suggested that a simplified PIM could be developed drawing on data from the traditionally compiled balances of fixed assets, past time series on gross fixed capital formation and other

sources. Useful information on the service life of fixed assets can be obtained from users, but also from producers of capital goods.

9. The majority of opinions expressed was in favour of continuing work on developing methods of estimation of the value of the stock and consumption of fixed assets. To advance work in this area the ECE secretariat was asked to carry out, in cooperation with SCCIS and OECD, a survey of practices used in transition economies for calculating the value of the stock and consumption of fixed capital and to prepare a summary paper for the next national accounts meeting in 1997.

**d) Boderline problems with institutional sectoring**

Documentation: Papers by Australia, Canada, New Zealand, Iceland, Romania, Sweden, Switzerland, United Kingdom and OECD.

Clarification of the rules

10. Several participants noted that clarification is required concerning the definition of sales to government. This is particularly important with regard to hospitals, schools and universities. It was suggested that to qualify as a sale, there must be a direct link between the payment and the volume of the service provided. Another criterion could be whether the unit concerned is competing with units classified as market producers. If the service is provided directly to the consumer, this could be another indication that a sale has occured. More generally, it was noted that the exchange of information between countries on decisions taken in particular cases and on the rationale for these decisions could lead to greater consistency between countries.

11. Several countries try to determine if a unit is operating in market conditions when they decide whether a unit is a market or non-market producer. If the unit is competing with private corporations or if it provides services similar to those provided by private corporations this could be grounds for classifying a unit as a market producer. However it was noted that "operating in market conditions" should not be used as the only criterion. For example, traditional government services like policing and prisons may meet with increasing competition from privately operated security services; yet, classification of the former services in the government sector is not questioned. On the other hand, public utilities are usually classified as market producers; yet, they may not be operating in market conditions.

12. It was agreed that defining control of a unit is difficult. The SNA reference to the power to appoint directors is not relevant in all cases. Participants felt that it would be useful to develop criteria for defining control which are more specific to the particular kinds of institutions - schools, universities, broadcasting authorities, hospitals, etc. - where the question of control is important in determining the sector classification. It was also noted that potential control by government was not sufficient to assign a unit to the government sector since governments have the potential to control virtually all economic units; to qualify as a unit of government, the control must be actual.

13. Problems arise when a unit is controlled by one institutional sector but is mainly financed by another. At least one country gives priority to the financing criterion in such cases. One participant suggested that this rule could be improved by using the source of financing as the decisive criterion except in cases where there is no evidence at all of control by the sector providing the finance. Other participants requested guidance on the intentions of the authors of the new SNA/ESA. It was agreed that this is another area where exchange of information, perhaps through a central data base, could lead to greater consistency in country practices.

Quasi-corporations

14. The rule for identifying quasi-corporations, namely the existence of complete accounts including balance sheets, is clear. For most countries, the problem is the practical one of identifying the units concerned. It was noted that in some countries partnerships usually maintain full accounts and so could be candidates for classification as quasi-corporations. The important point was made that when an unincorporated enterprise is classified as a quasi-corporation the owners must be reclassified from self employed to employees. This could lead to inconsistencies with other labour force statistics. Few countries expect to enlarge the scope of quasi-corporations as a consequence of implementing the new SNA/ESA.

Satellite accounts

15. There is widespread interest in examining the overall provision of education and health services. The new functional classifications - COICOP, COFOG and COPNI - will allow countries to show total expenditures on these services. Several participants felt that it would be useful to also develop satellite accounts which could provide an overview of the production of these services; in the central SNA/ESA framework the producers of these services can be classified as non-profit institutions in general government, as NPISHs and as non-financial corporations.

Extent of changes to sectorisation

16. Several countries will use the implementation of the new SNA/ESA as an opportunity to review the classification of units according to institutional sector, either because they believe that the existing classifications are incorrect or out-dated or because they want to harmonise their classifications between the national accounts and related systems such as Government Finance Statistics. There was some discussion about the desirability of preserving continuity of time series. The general view is that changes in the sectorisation of units should be made according to objective criteria and not be influenced by the desire to preserve historial continuity. One participant suggested an interesting compromise, namely to store up changes in sector classification for periodic revisions every five years.

17. It was suggested, however, that consistency over time might be particularly desirable for countries in transition where governments were publicly committed to privatisation over a foreseeable, relatively short period. Housing was taken as a particular example in paper STD/NA(96)2. Further consideration is needed to ensure the treatment adopted produces

results that are neither anomalous nor counter-intuitive to informed analysts.

Future actions by the international organisations

18. Inter-country comparisons of the size and growth of institutional sectors are difficult to make both because there are genuine differences in institutional arrangements between countries and because there are differences in the way that countries interpret the rules for sectoring units which are in fact very similar from one country to another. Participants suggested that it would be useful if an international data base could be established to describe the scope of institutional sectors in each country. There is particular interest in the scope of the institutional sector General Government.

19. A data base of this kind could also serve as a guide in helping individual countries to decide borderline cases in classifying units to institutional sectors. To serve this purpose, the data base would need to include information on the rationale underlying decisions taken in borderline cases.

**e) Proposals for the revision of COFOG**

Documentation: Paper by OECD.

20. The OECD introduced the paper STD/NA(96)3: Revision of COFOG together with room document 2: Draft Revision of COFOG. The paper described the changes that had already been made to COFOG and outlined other changes that had been proposed for the structure and detail of the classification. The changes effected concerned R & D, environment and individual services. The proposed changes to structure suggested four new divisions and the restructuring of environment, social expenditures, education and individual services so that they conformed to Classification of Environment Protection Activities (CEPA), European System of Social Protection Statistics (ESPROS), revised International Standard Classification of Education (ISCED) and COICOP, respectively. The proposed changes to detail were not discussed.

21. It was agreed that R & D should be shown as a separate group in each of the 15 divisions of the classification. However, it was suggested that perhaps only expenditures on applied research and experimental development could be so apportioned; expenditures on basic research could remain under Division 01, General Public Services. The creation of the new division, Environment Protection Affairs and Services, and its restructing to conform to CEPA was generally accepted. The expenditures on education, health, social security and welfare, sport and recreation, culture and the provision of housing that had been identified as part of individual consumption were also found acceptable. However, by convention, all expenditures on the collection of household refuse and the operation of transport equipment are to be considered as collective services.

22. To speed up the revision of COFOG, the following timetable was agreed. Countries and international agencies would send their comments and proposals to the OECD by the end of June. After taking these comments and proposals into account, the OECD would then redraft and recirculate the classification

by the end of October. Receipients would be invited to submit their comments on the revised draft by the end of December with a view to the OECD producing a final version by March 1997.

**f) Measuring output and productivity in the government sector**

Documentation: Paper by Australia.

23. The Australian Bureau of Statistics is starting a major project to measure changes in government output and this work could result in improvements in the measurement of real output of non-market services produced by government. The paper STD/NA(96)4 describes the discussions taking place in the ABS and outlines a future work programme. Measuring government productivity has been a political concern in several other OECD member countries in recent years although the work undertaken in some countries, including the United States and Sweden was not always carried out within the framework of the national accounts and so could not be directly used to improve national accounts estimates of government output.

24. It was noted that Eurostat has recently established a task force to examine problems of estimating national accounts at constant prices and it could be useful if this group could keep the ABS informed of any work they undertake on the measurement of government output. Participants also requested the international organisations to make an inventory of the methods currently used to measure government output at current and constant prices. It was agreed that this topic should be taken up again at the meeting next year at which time ABS may have more results to report and other countries, including Finland and Sweden, could report on on-going or recent studies in this area.

**g) Calculation and allocation of FISIM;**

Documentation: Papers by Australia, Canada, Japan, Italy and Eurostat.

25. Eurostat presented a proposal for calculating and allocating FISIM. Interbank rates (internal and external) calculated according to the balance sheet of the financial intermediaries were used as reference rates to allocate FISIM. Various options were explained concerning two questions: (i) how to treat the Central Bank; and (ii) how to reconcile global FISIM (as defined in SNA) and detailed FISIM (on loans and deposits by institutional sectors).

26. The Australian representative said his country was in favour of allocating FISIM on loans and deposits by institutional sector. It was explained that the global definition of FISIM in SNA is false because: (i) it excludes the property income receivable from the investment of own funds; and (ii) it includes the interest receivable and payable on bonds. Global FISIM should simply be calculated as the sum of detailed FISIM. The Central Bank should be excluded from these calculations. The market reference rate should be used.

27. The Canadian representative was in favour of the allocation of FISIM in proportion to the stocks of loans and deposits: each dollar of loan has the same FISIM as a dollar of deposit. This method was considered simpler and as

providing more stable estimates over time. It involves no negative FISIM. A similar approach is being developed in USA. Canada proposed to calculate differently, as compared with Eurostat recommendations, the deduction for own funds by applying a rate calculated from the financial statements of the banks. It should be the weighted average rate of return on financial assets and intermediated funds. The rate FISIM/stocks of loans and deposits found for the Canadian economy could be used to calculate the country's imports of FISIM. The Central Bank should be excluded from FISIM calculations; its output should be measured as the sum of expenses, and be considered as purchased by the Central Government. It was pointed out in the discussion that a number of questions had still to be answered, for example how to decide if a unit is a financial intermediary, how to identify the users of FISIM, how to deal with own funds, how to calculate FISIM at constant prices and how to define reference rate(s).

28. The Japanese representative said his country was in favour of the same definition for both global FISIM and detailed FISIM, which means that FISIM should be allocated on bonds. As it is important to avoid negative FISIM, it was proposed to use the midway reference rate between the rate of return on assets and the rate of return on liabilities of financial intermediaries. Difficulties in allocating FISIM by industry and in calculating imports of FISIM were stressed. Also, as fluctuations of interest rates have pro-cyclical effects on GDP, allocating FISIM could have a negative impact on the reliability of GDP figures.

29. Italy presented an estimate of FISIM for Italy, which follows Eurostat guidelines. The implementation of the approach required the availability of detailed matrices of interest flows accruing between sectors by financial instruments. Stocks were valued at market prices. The interbank rate used as a reference rate was closer to the rate of loans than to the rate of deposits. This allowed Italy to calculate the impact of FISIM allocation on GDP level for 1991 (almost 2%). The approach was found useful by some participants. It has shown that a matrix approach was possible and provided interesting results about the margins of the different categories of financial intermediaries.

30. Many participants welcomed proposals by ABS formulated in Peter Hill's paper. IMF suggested to concentrate research on the choice of the reference rate and on the breakdown of loans and deposits of households, which was considered a practical and not a methodological problem. France welcomed Peter Hill's paper, but did not support all the conceptual reasons put forward in the paper in favour of changing the SNA global definition of FISIM. Practical considerations may lead to the same simplified result, which can then be implemented by all countries. A point of view was also expressed by France that, according to the SNA, the Central Bank does not need to be treated differently from other banks. Further consideration of the SNA global definition of FISIM was regarded necessary by OECD. Institutional differences in the organisation of Central Banks in various countries and problems in measuring imports and exports of FISIM were pointed out by the UK.

31. The Netherlands mentioned four major problems with regard to the Eurostat proposal: (i) the reference rate (the interbank maturities differ from loans maturities); (ii) the negative FISIM; (iii) the breakdown

between intermediate and final consumption of households; and (iv) the micro-macro link (in business accounting, the total interest payments by producers remain included in their operating surplus). It was proposed to allocate all output of FISIM, in the primary allocation of income account, to final use paid by institutional sectors. As compared with non-allocating, this approach increases GDP (as all FISIM contribute to GDP), but GNP and national income remain unchanged.

32. Norway and Germany would prefer not to allocate FISIM for comparability reasons. It was argued by Eurostat that, on the contrary, the comparability would not be ensured if FISIM is not allocated. Norway also addressed the problem of distributing FISIM between intermediate and final consumption of households and by financial units (establishments).

33. The participants were informed about the Eurostat meeting on FISIM to be held on 26 June 1996 in Luxembourg. The meeting will attempt to reach an agreement on a method for treating FISIM in EU Member States. Other countries interested in contributing to the discussion were invited to take part in the meeting. Several countries, notably Australia, Canada and United States, stressed the importance of finding a solution to the FISIM problem acceptable in a broader that EU framework. Such a solution should be found as quickly as possible as many countries are planning to implement the 1993 SNA in the near future.

**h) Implementation of the ESA 95 financial accounts in the EU Member States**

Documentation: Paper by Eurostat.

34. The delegates were informed, against the background of the preparation of phase three of the European Monetary Union, about the implementation of the financial accounts by the EU Member States according to the new ESA. The strategy is based on three elements: (i) early implementation; a trial round is planned for 1998; (ii) cooperation for the transfer of know-how among the Member States; and (iii) documentation of sources and methods.

35. It was further explained that the legislation concerning the excessive deficit procedure (Union Treaty, the protocol and regulation 3605), which makes use of the definitions of the national accounts, sets the framework for Eurostat which has to be applied very strictly. However, the indicators of debt/GDP and deficit/GDP have to be interpreted in a wider context of the overall assessment of the economic performance of a Member State.

**i) Review of the final draft of COICOP**

Documentation: Paper by OECD.

36. The final draft of COICOP, prepared by OECD, was discussed. Countries would send their final comments to OECD for finalising the classification. UN ECE offered its assistance in translating COICOP (and COFOG) into Russian. It was suggested that the English names of classifications be used in translations into other languages.

**j) Harmonisation of the 1993 SNA and 1995 ESA questionnaires;**

Documentation: Eurostat ESA 1995 questionaire

37. Eurostat presented the April 1996 version of ESA 1995 questionnaire. It is planned to send one harmonised questionnaire to all EU and OECD countries in 1999 asking for 1998 and some earlier years data. The questionnaire will be accompanied by a handbook explaining how to fill it in. Data will be collected electronically and not in a paper form. A proposal was put forward to test the questionnaire on one country with developed statistical system. Coordination of data collection from transition countries will be required.

**k) Future work**

38. The meeting's suggestions on future work are given in para. 5-6 of the body of this report.

**l) Other business**

39. The meeting was informed about the IMF standards for dissemination. Questions were raised concerning comprehensiveness of the standards, the formal procedures for enlisting and how international comparability would be warranted.

40. OECD informed the meeting about its plans of organising a joint OECD/ESCAP meeting on national accounts in 1996/97 in Bangkok.

41. Attention of the meeting was drawn to the paper by Austria "A class society of national accounts compilers? Considerations on certain requirements and some consequences of the transition to the new systems".

42. The meeting adopted the present report before it adjourned.