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MAJOR PROBLEMS WITH 1993 SNA IMPLEMENTATION

Submitted by the National Statistical Committee
of the Kyrgyz Republic

1. Problems in estimating gross domestic product (GDP)

As the National Statistical Committee of Kyrgyzstan embarked on compiling macroeconomic indicators using the System of National Accounts in 1993, efforts were immediately made to follow the 1993 SNA. Substantial problems have, however, occurred during the introduction of the System. The development of non-public forms of ownership and of small and medium-sized businesses and private entrepreneurship has raised questions about the quality, accuracy and completeness of coverage of the activities of economic entities in all sectors of the economy.

A number of problems are still being experienced in compiling the production account. These are connected with the reform of the accounting system, since the existing system remains geared to a planned economy rather than to a market economy. The first steps have now been taken in the republic to apply international accounting standards. A new scheme of accounts for banks, enterprises and organizations has been introduced, together with a new budget classification (for income and expenditure within the republic's budget). A proposed new law bringing the accounting system into line with international standards is under consideration by the Parliament of the republic.

For the time being, however, calculations of the gross output of some of the main branches of the republic's economy do not fully conform to the SNA, since they are based not on goods sold but on goods actually produced. The branches concerned include industry as a whole and agriculture. Trade is measured by the "gross income" indicator, and not through purchases or sales and changes in inventories. This is due to the continuing high inflation and the lack of quality information on changes in inventories. The absence of a housing market makes it difficult at present to estimate output for "housing construction", and especially privately-owned housing, by means of rentals paid under a lease (which are not equivalent to existing rents for apartments), as recommended by the 1993 SNA.

A major problem is that of reflecting the consumption of fixed capital in order to estimate the net domestic product, since the cost of goods produced includes depreciation of fixed capital calculated at book value. With the present high rates of inflation, the proportion of the value written down in the course of a year bears no relation to the amount needed to replace the capital expended over the same period. Thus, simply deducting the book value for depreciation of fixed capital from gross value added is insufficient for the calculation. Initial attempts have therefore been made to estimate the consumption of fixed capital using a simplified version of the current replacement cost method, but the problem as a whole has not been resolved.

In calculating GDP by the use method, extensive use is made of data from budget surveys, where along with improving the quality of data for households, there is the problem of the representativeness of the sample. Use is also made of data on retail trade, the main weakness here being that goods acquired by private individuals are not divided into goods acquired for intermediate consumption, for final consumption and for resale.

Problems also occur when recalculating indicators at constant prices. With the development of market services (education, health care, etc.), the question arises as to whether it would be more realistic to recalculate the data for the branch by the method of deflation, and not by extrapolation.

There is a substantial problem, too, with the allocation of financial intermediation services indirectly measured (FISIM). At present, when computing the structure of goods and services in GDP, FISIM is allocated in accordance with the 1968 SNA, i.e. it is included in intermediate consumption of the financial sector.

Statistical information is prepared by the cumulative method (as for all accounting) and this also makes it very difficult to calculate net quarters.

2. Exhaustiveness of national accounts, hidden economy, illegal activities

No adjustments were made for the "grey economy" when calculating the net material product during the period of the planned economy. In the 1993 SNA, however, it is recommended that the System should be designed to take account of hidden, informal and illegal activities. For this purpose, the National Statistical Committee has prepared temporary methodological recommendations for estimating the size of the "grey economy", which reflect the main lines of activity in this area.

Informal production includes unincorporated enterprises owned by households. These operate for the most part on a legal basis and with the main aim of producing goods and services to provide employment and income. (With regard to agriculture, the household sector is not included in the informal sector.)

Hidden production largely consists of legal activities which are nevertheless concealed or under-reported in order to avoid the payment of taxes, social security contributions, etc.

Producer units classified as criminal are those engaged in the illegal production or sale of goods and services (production and distribution of narcotics, prostitution, etc.), as well as economic entities not authorized to engage in a particular kind of activity.

The methodological recommendations make it possible to estimate elements of the "grey economy" on the production side. The adjustments made by branch and sector of the economy are outlined in annex 1.

A serious problem for the republic's economy is posed by the widespread phenomena of the flow of capital abroad and of non-payments to enterprises. These operations constitute a redistribution of income and assets and do not in themselves affect the size and structure of GDP. However, the outflow of capital (illegal transfers of funds to foreign bank accounts) is in some cases connected with transactions involving the illegal export of goods, and these do influence the size and structure of GDP. Non-payments frequently result not from lack of funds but from the use of money in circulation to obtain illegal income. Detailed analysis of the nature of these phenomena is required to shed light on elements of the "grey economy".

Annex 1

ESTIMATION OF THE SHARES OF THE "GREY ECONOMY" IN 1995

GDP volume for 1995 - 16,145.1 million soms

Branches	Share of branch in GDP (%)	"Grey economy" share in GDP			Notes
		Sector	(%)	million soms	
1. Industry	12.0	Informal - household sector	0.5	84.4	Special monthly sample surveys. All output from individual producers (light industry, food industry, printing, woodworking, etc.) is monitored.
2. Construction	6.1	Hidden - non-financial sector	0.05	8.7	Construction and refurbishing of embassy buildings, building of places of worship, conversion of dwellings for use as offices, shops, cafés, etc. Data obtained from special surveys. Construction of individual dwellings not included in "grey economy".
3. Agriculture	40.6				Estimates are made indirectly by branch, and household sector output is therefore not treated as part of the "grey economy". This constitutes 37.3% of GDP.
4. Total, goods-producing branches	58.7		0.55	93.1	The goods-producing branches include: industry, construction, agriculture, forestry and other branches of the material sphere.
5. Trade and public catering	11.0	Informal - household sector	5.2	838.1	From results of sample surveys of food, non-food and mixed markets and from family budget surveys.
		Hidden - non-financial sector	2.1	334.3	Use is made of data from one-time survey of retail trade and public catering network.

Branches	Share of branch in GDP (%)	"Grey economy" share in GDP			Notes
		Sector	(%)	million soms	
6. Transport (goods and passengers)	3.3	Informal - household sector	0.2	34.3	Special surveys to estimate passengers and goods carried, average output per vehicle and average number of vehicles available in good working order. Survey of respondents conducted quarterly.
7. Finance and credit	1.8	Hidden - financial sector	0.2	27.7	Adjustment is made for exchange bureaux and pawnbrokers. For this purpose, use is made of data available for non-reporting enterprises: number of persons employed in the particular sphere, ratio of wages and salaries to earnings, level of profitability. These figures are grossed up to cover all active entities.
8. Health care, education, general government, culture and arts, public utilities	8.5	Hidden - non-financial sector	0.05	8.4	Paid services to the population are estimated on the basis of information on non-reporting enterprises and household budget surveys.
		Informal - household sector	0.1	18.1	
9. Total for branches producing services	34.0		7.85	1260.9	
10. "Grey economy" components included in GDP			8.4	1354.0	

Branches	Share of branch in GDP (%)	"Grey economy" share in GDP			Notes
		Sector	(%)	million soms	
11 Net taxes on products and imports	7.3				Excise duties, VAT, sales tax and taxes on products minus subsidies on products (for passenger transport; to offset price differences in industry; for collective services).
