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POLICY USES OF NATIONAL ACCOUNTS IN FINLAND

Invited Paper submitted by Statistics Finland*

INTRODUCTION

1. National accounts are a chronicle that is based on statistics. They possess properties that make them into an excellent tool for describing national economy and its functioning. Perhaps the most significant ones of these are the identities, originating from double-entry bookkeeping, for describing markets and budgets.

2. In terms of its basic concepts, the employed system of national accounting is more or less identical throughout the world. It is, therefore, a universal system. There are documented descriptions of nationally used compilation methods and source data. Thus, the accounting represents a transparent system.

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3. It has often been claimed that national accounts are a product of Keynesian thinking. Considering scientific co-operation at the time modern accounting was created, it is only natural for national accounts to have been influenced by the Keynesian school of thought. However, the theory on which national accounts are based is neutral as far economics is concerned and functions in any economy that abides by the laws of supply and demand.

4. National accounts have retained their key role as an economic policy instrument ever since their creation in the modern form almost sixty years ago.

5. This paper first discusses briefly the environment within which Finnish national accounts are compiled. This is followed by a description of the areas in which national accounts data are utilised, both in Finland and in the information processes of the European Union. The end of the paper presents some of the demands and challenges imposed on the accounts by administrative use.

STATISTICS FINLAND

6. Finnish national accounts are compiled by Statistics Finland. Statistics Finland is the leading statistical organisation in Finland. It operates under the authority of the Finnish Ministry of Finance. The Ministry and Statistics Finland draw up an annual performance agreement concerning the development targets and areas of emphasis in official statistics. Statistics Finland is independent as regards development of the contents of its statistics. The agency's activity is regulated by the Finnish Statistics Act.

7. In the year 2000, Statistics Finland's annual expenditure totaled EUR 46 million. Most of the agency's financing comes from appropriations from the national budget. The next major source of funding is revenue from chargeable service activities, and this amounted to good EUR 8 million. The total work input of Statistics Finland's personnel amounted to approximately 940 staff-years in the year 2000.

8. Statistics Finland has four, small regional service offices around Finland. They undertake the sales and marketing of statistical data around their places of location.

9. In accordance with the existing division of responsibilities, Statistics Finland does not draw up economic forecasts but its task is to produce follow-up data that are as up-to-date and reliable as possible.

10. Finland joined the European Union in 1995, and the third stage of Economic and Monetary Union in 1999. Finland's accession to the European Union had a profound impact on Statistics Finland's operating environment. Statistics Finland began to participate together with Eurostat and

the national statistical institutes of the other Member States in the implementation and development of the European Statistical System (ESS).

11. For Statistics Finland, Finland's entry into the European Union meant the start of international harmonisation work in the development of economic statistics. As far as national accounts are concerned, the first phase of harmonising has since been completed, but a considerable amount of work in this area still remains to be done.

DOMESTIC USE OF NATIONAL ACCOUNTS

12. Statistics Finland has been compiling Finnish national accounts since 1948. Their compilation was started to meet the central government's need for a clear perception of the structure and development of the nation's economy to assist it in the process of drawing up national budgets. Almost throughout the 1950s the accounts served predominantly the Ministry of Finance and the data were, in fact, published as an appendix to the state budget. Since 1960, Statistics Finland has compiled, published and developed national accounts as an independent domain of the statistics.

13. The products derived from national accounts include a monthly indicator of gross domestic product, quarterly accounts, annual accounts inclusive of financial accounts, input-output tables and regional accounts. All these are produced with the work input of a staff of little more than 40.

14. National accounts data have been continuously exploited in the planning of national economy and in the monitoring of economic policy. The close liaison between national accounts and the information needs of financial policy is depicted by the fact that certain release dates of national accounts data are determined by the timetables of the budget process. Discussions on the co-ordination of domestic economic policy also rely on national accounts data.

15. The general government today sets itself clearer quantitative targets than before, and the realisation of these is being monitored with appropriate indicators. The targets are frequently tied to national accounting concepts. The setting of quantitative goals also leads to the development and monitoring of related indicators. The conventionally monitored macro-economic indicative figures include, among others, tax rate, public sector deficit, rate of unemployment and appropriations for development co-operation. It is also usual for an activity or item of expenditure or income to be proportioned to gross domestic product. This trend could perhaps be described as benchmarking over time.

16. The Structural Indicators requested by the European Council and developed by the Commission should perhaps also be included in this information category. The purpose of the Structural Indicators is to facilitate the depicting and monitoring of progress towards the policy objectives set by the European Council.

INFORMATION PROCESSES AT THE EU LEVEL

17. High-quality, reliable statistics are essential sources of information on all areas of life in society. An Article concerning statistics was integrated into the treaty establishing the European Community by virtue of the Treaty of Amsterdam, signed in 1997. The Article 285 states that "...the Council, acting in accordance with the procedure referred to in Article 251, shall adopt measures for the production of statistics where necessary for the performance of the activities of the Community". However, the Article does not limit the activities of the European Central Bank in the area.

18. "The production of Community statistics shall conform to impartiality, reliability, objectivity, scientific independence, cost-effectiveness and statistical confidentiality; it shall not entail excessive burdens on economic operators" (Article 285).

19. Statistical development often takes place by virtue of an EU Legislation and the comitology procedure related to its adoption.

20. Council decisions about regulations concerning statistics are made by qualified majority and in accordance with the co-decision procedure with the European Parliament (Article 251).

21. The development of Community statistics follows the principle of subsidiarity, which means that the work involved is done (in the place) where it can best be implemented. In practice, this often means that the statistics are developed and produced by Member States (www.europa.eu.int/scadplus/).

22. The European Statistical System is guided by jointly drawn up short and medium-term plans.

23. From the perspective of a well-functioning Community, defining its own resources, convergence of Member State economies and soundly operating public sectors constitute the key issues. Economic statistics, and especially national accounts, are also vital to dialogue on economic policy and co-ordination of financial policy.

24. Reliable economic statistics are equally crucial to the European Central Bank (ECB), which guides monetary policy within the euro zone. The ECB and Eurostat have an agreement about collaboration and division of tasks in the field of economic statistics. At the moment, the ECB is highly interested among other things in promoting compilation of quarterly national accounts.

25. The Committee on Monetary, Financial and Balance of Payments statistics (CMFB) constitutes an important organ for the monitoring and development of statistical co-operation between the European Central Bank and Eurostat, on the one hand, and between the national statistical institutes and central banks of Member States, on the other. The Committee has representatives from both the national statistical institutes and national central banks.

EU's own resources

26. In 1998 the Community budget totaled EUR 91 billion in commitment appropriations. According to the financial framework of reference adopted for the 2000 to 2006 period, the ceiling for expenditure is determined by the aggregate gross national product of all Member States. The EU budget may not account for more than 1.27 per cent of the European Union's combined GNP at current prices (www.europa.eu.int/scadplus/).
27. Apart from so-called traditional own resources, the budget is financed by value-added tax payments and GNP contributions. National accounts data have an important role in the determining of these third and fourth budget resources.
28. A weighed average rate of value added tax, derived from input-output accounts, is used in determining the value-added tax contributions.
29. The GNP contribution is levied direct on the basis of the GNP disclosed in the national accounts of a Member State.
30. Over 80 per cent of the EU's budget funding is collected on the basis of these third and fourth resources (www.europa.eu.int/scadplus/). The importance of the budget process means that the levels expressed at current prices in national accounts must be defined as correctly as possible. Input-output accounts, for their part, must be capable of defining accurately the value-added tax basis from commodity flows of intermediate and finished products between the productive industries of the national economy.
31. The central role of national accounts automatically means that their compilation must be harmonised, transparent and, right from preliminary data, as consistent as possible with regard to its results. The compilation process in member countries is subject to close scrutiny, including that of the EU's Court of Auditors.
32. Harmonisation of GNP data for the budget is directed by the GNP directive and the GNP Committee, chaired by Eurostat. Member States have drawn up detailed inventories of their GNP compilation methods and implemented a broad programme for the harmonisation of their national accounts data.
33. As far as administrative use of national accounts data is concerned, membership fees of international organisations can be included in the same category as the EU budget. Such membership fees determined on the basis of GDP include those of the UN and OECD. A further example of this is the capital key of the ECB, which is determined in proportion to Member States' GDP and population sizes.

The Growth and Stability Pact

34. Convergence of Member State economies was intensified during the second stage of Economic and Monetary Union (up to 31 December 1998). Convergence criteria were introduced to monitor the progress. Of these, the criteria concerning government deficit and debt, in particular, touched national accounts.

35. Government deficit is defined equal to the national accounts concept of net lending of general government with one exception of the settlements under swaps and forward rate agreements. Government debt is principally calculated with financial accounts data. Both criteria are applied in proportion to a Member State's GDP at current prices. As the criteria were being drawn up, it was decided that the ratio of government deficit to gross domestic product must not exceed 3 per cent and that of government debt to gross domestic product must not exceed 60 per cent.

36. In its Amsterdam summit in 1997, the European Council adopted the so-called Growth and Stability Pact (SGP). One of its aims is to ensure that Member States continue their budgetary discipline efforts in the public sector. In the medium term, the Pact's objective is to ensure the presentation of balanced public budgets. SGP consist of two regulations concerning stability programmes and excessive deficit procedures.

37. The two regulations on which the Growth and Stability Pact is based define the procedure under which the public economy of a given Member State is deemed to have run into excessive deficit. Apart from the above-mentioned data on deficit and debt of general government, information on the development of the volume of GDP is also used in this defining process.

38. In Finland, the EDP-reporting to the Commission under the Growth and Stability Pact is the responsibility of the Ministry of Finance but Statistics Finland contributes closely to the reporting process. Statistics Finland produces data on realised progress in the volumes of deficit, debt and GDP for the Ministry's notifications issued annually at the end of February and at the end of August. Statistics Finland also publishes data that come under the scope of its own data production responsibility.

39. The Growth and Stability Pact demands particular accuracy of national accounts data on government deficit, debt, and value and volume of GDP. The first preliminary data on these must be ready in two months after the end of a reference period. Gathering sufficient basic statistical data in two months presents a major challenge to the compilers of national accounts.

40. Eurostat has produced ESA95 Manual on government deficit and debt for the calculating of government deficit and debt. The second edition of the handbook is due out shortly. The book describes in detail the statistical process for the determining of excessive deficit and debt documents the solutions Eurostat has produced in specific cases of these calculations.

41. Extensive efforts are currently being made to improve the quality of Member States' GDP volume calculations and at the same time also harmonise the compilation methods used. Eurostat has published a handbook on price and volume measures on national accounts.

Structural Funds

42. The Structural Funds are part of the Community's structural policy, which is intended to reduce the gap in terms of development between different regions and between Member States of the European Union. The latest decisions relating to structural measures concern the 2000 to 2006 time period. One of the objectives of the Structural Funds is the development and structural adjustment of the regions whose per capita GDP is less than 75 per cent of the European Union average (www.europa.eu.int/scadplus/).

43. Calculations of the criteria for the Structural Funds require the compilation of GDP figures per capita in regional accounting. Apart from these output accounts, regional accounts in Finland also contain data on employment and investment, as well as household accounts according to the transmission programme in ESA95-regulation.

The EU's general need for statistics on economic trends

44. EMU Action Plan drawn up by the Economic and Financial Committee is an expensive project aiming to improve the quality of infra annual statistics on economic trends. The ECOFIN Council was of the opinion that the coverage of the statistics produced to support financial policy co-ordination was deficient and that the statistics should also be produced more timely timetable than presently. In summer 1999, an ad hoc statistical working group of the Community's Economic and Finance Committee (EFC) was set up to correct the matter.

45. The ad hoc group defined the body of the statistics on economic trends that the ECOFIN required, as well as set target deadlines for their production. The work of the group was documented in a memorandum entitled *Action Plan on EMU Statistical Requirements* at the beginning of 1999 (www.europa.eu.int/emu/). Basing on this EMU Action Plan, EU Member States have drawn up their own national Action Plans by which they commit themselves to the targets and timetables presented in the memorandum. With regard to national accounts, the measures put forth in the Action Plan involve the development of quarterly national accounts, in particular. The European Central Bank participates closely in the drawing up of the Action Plan.

46. National accounts data are extensively used by the Commission's DG Ecfm, which produces economic reviews for the Member States, amongst other things.

ON THE SUITABILITY ON NATIONAL ACCOUNTS FOR ADMINISTRATIVE USE

47. The identifying characteristics of modern administration are impartiality, transparency, and rapid production of right decisions. An administrative process is easier to bring to a conclusion if the information used as input in it is definitive from the very start. Equally, because administrative procedures are often replicable from one point of time to the next, the used input data should also remain uniform.
48. However, when using national accounts data, we are challenged by the fact that their precision and comprehensiveness improve with time. Vigorous revision of preliminary figures may in some cases even alter the question-setting.
49. From the point of administrative fluency it is important that the information system for producing statistics on national accounts are the same regardless of whether preliminary or final, revised figures are produced. This ensures that the bases on which conclusions are drawn stay constant throughout the process. However, this condition cannot always be fully met in practice. The reason is also quite simple: the plentiful and detailed data available for final statistics are not available at the time preliminary accounts figures are being calculated. Nevertheless, the accuracy achieved in practice has thus far been sufficient.
50. On the other hand, one must bear in mind that national accounts primarily constitute a statistical system the concepts and definitions of which have scope for development to allow for changes in the economic reality. Severe tying of national accounts and their compilation to administrative processes may render the accounts too rigid to be of use in economic analyses. This threat is, of course, reduced if the definitions and concepts of the national accounts handbook are also adhered to in administrative processes.

Universality

51. National accounts constitute a universal system. Like the other Member States of the European Union, Finland also follows the European System of National and Regional Accounts (ESA95) in the compiling of her national accounts. In fact, the ESA95 constitutes a part of the Council Regulation (EC) 2223/96 on the European system of national and regional accounts in the Community.
52. By and large, the European System of Accounts is harmonious with the UN's worldwide System of National Accounts (SNA93). This is especially the case as regards definitions, calculation rules and classifications. Any differences between the systems are mainly due to the areas of usage of the European system, which require more exacting definitions and calculation rules than those of the "parent" system.

53. The Council Regulation on the European system of national and regional accounts was adopted as such into Finnish national legislation. The Regulation is comprised of the actual regulation text and two annexes. Annex A is the ESA95 handbook while Annex B is a schedule according to which Member States must transmit their accounts data to the Commission. The schedule lays out the degrees of precision and the timetables for the reporting of annual, quarterly and regional data.

54. Before its membership in the European Union, Finland used the SNA68 accounting system. Since April 1999, Finland has been transmitting to Eurostat national accounts data that comply with the ESA95 system.

55. Certain revisions can be made to the European System of National and Regional Accounts at the decision of the Commission. However, the system is well protected against rapid major changes. The Commission may only adopt amendments to the Regulation on national and regional accounts or to the system of national accounting provided that these do not affect the underlying concepts or classifications and do not require additional resources for their implementation and do not cause an increase in own resources (ESA regulation, Article 2). The Regulation ensures the accounting system's gravity but renders the procedure for adopting any amendments fairly complicated.

Transparency

56. National accounts are transparent. The accounting system has a uniform basis by virtue of the SNA/ESA handbooks. Furthermore, thorough meta-descriptions of the calculation rules and used basic data ensure that the process for compiling national accounts data is intelligible. The system's methodological descriptions are principally inventories compiled for Eurostat. The inventories have been drawn up both in respect of the ESA79 and the ESA95.

57. A regular practice adopted by Statistics Finland is the publishing of an annual release calendar that gives in advance the dates on which important statistical data will be made public. The calendar is reviewed three times per year. Notifications on the economic situation in Finland are made public at 8 a.m. EET.

58. Finnish legislation also stipulates that statistics that have a bearing on national economy must be published immediately upon their completion.

59. Some of the statistics on economic trends are classified as sensitive data subject to insider rules. The purpose of the insider rules is to ensure that important data on economic trends are made simultaneously available to all market operators. Statistics subject to insider rules are first releases of data that describe the performance of the whole national economy, or an important sector or industry within it. For example, the monthly indicator of GDP that is published with a time lag of sixty days represents such data in Finland. In addition to the aforementioned, statistics subject to insider rules

also embrace the consumer price index, the volume index of industrial output and the monthly labour force survey bulletin.

Harmonised system

60. National accounts are harmonised statistics. For a decade, Finnish national accounts have been the subject of harmonisation of output by the UN and the OECD. As Member State of the European Union, Finland has been harmonising extensively its national accounting especially since the mid-1990s, when implementation of ESA95 was carried out. The exercise also covered the source data used in the production of national accounts and endeavoured to improve the coverage of data on the output of the hidden economy.

61. Extensive harmonisation has also taken place in the accounting solutions concerning government deficit and debt, as well as in the methods relating to the basis on which value added is calculated.

62. Currently ongoing harmonisation work concerns the already mentioned calculation method for GDP at fixed prices. A further objective is the speeding up of production of statistics on economic trends as per the earlier mentioned Action Plan.

CHALLENGES

63. The compilation of statistics, and especially of national accounts, is continuously confronted with numerous challenges. These are brought on by globalisation and deregulation, problems relating to the depicting of technological changes, and interpretation and processing of money market phenomena.

64. Describing globalisation and activities of multi-national enterprises within the confines of the national accounts concepts, national and domestic, has proven extremely complicated and error-prone. The activities of international enterprises, as well as their monitoring, may be organised in a way that differs from the ones required by national accounting systems.

65. The arrival of new technology on the market and the growing proportion of production accounted for by services makes it difficult to define a product itself, and to divide its value into the volume and price components. The problem is further aggravated by the facts that many products have short life cycles, and expired products are replaced by new ones with properties that differ significantly from those of the predecessors. This problem is currently particularly acute in the ICT industries.

66. Money market innovations may also generate difficult defining and entry recording problems from the point of national accounts. Examples of this are the currently prevalent discussions about the accuracy of the savings rate in national accounts in Finland especially the treatment of incentive stock options.

Yet, in conclusion

67. Professor Richard Stone was awarded the Nobel Prize in Economics in 1984. In summarising the basis on which the award was granted, the then Chairman of the Royal Swedish Academy of Sciences cited the fundamental contributions professor Stone had made to the development of systems of national accounts, in particular, and described national accounts as a vaccine against wishful thinking in economic policy.
