

Distr.
GENERAL

CES/AC.68/2004/2
3 June 2004

Original: ENGLISH

**STATISTICAL COMMISSION and
ECONOMIC COMMISSION FOR EUROPE**

**ORGANISATION FOR ECONOMIC
CO-OPERATION AND
DEVELOPMENT (OECD)**

**CONFERENCE OF EUROPEAN
STATISTICIANS**

**COMMISSION OF THE EUROPEAN
COMMUNITIES (EUROSTAT)**

Joint UNECE/Eurostat/OECD Meeting on National Accounts
(Geneva, 28-30 April 2004)

REPORT

INTRODUCTION

1. The joint UNECE/Eurostat/OECD Meeting on National Accounts was held in Geneva from 28-30 April 2004. It was attended by Albania, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Lithuania, Luxembourg, Mexico, Monaco, Netherlands, Norway, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, The former Yugoslav Republic of Macedonia, Turkey and United Kingdom. The European Community (Eurostat) and the Organisation for Economic Co operation and Development (OECD) attended. Representatives of the Food and Agriculture Organization of the United Nations, the United Nations Statistical Division and the United Nations Mission in Kosovo were also present. The following specialised agencies and intergovernmental organizations attended: the World Health Organisation, the World Trade Organisation, the Bank for International Settlements, the European Central Bank and the International Monetary Fund.

2. The provisional agenda was adopted.

3. Mr. Philippe Stauffer (Switzerland) was elected Chair, and Messrs. Robin Lynch (United Kingdom), Michel Girard (Canada), Brian Newson (Eurostat), Ole Berner (Denmark) and Peter Van de Ven (Netherlands) were elected Vice-Chair.

ORGANIZATION OF THE MEETING

4. The following substantive topics were discussed at the meeting on the basis of invited papers and supporting papers:
- (a) Short-term statistics and their relation to National Accounts;
 - (b) Consistency of time series: methods and practical solutions for compiling long time series when there are changes in methodologies and classifications;
 - (c) Quantitative methods to check and control the quality of National Accounts;
 - (d) Treatment of taxes and social contributions;
 - (e) Conceptual issues and recent methodological developments related to the update of the SNA93;
 - (f) Information items.
5. During the afternoon of 27 April 2004, a special session on national accounts for CIS Countries and other Transition Economies was organised by the UNECE secretariat. The main topics of the session were the allocation of FISIM and the methods used to estimate the Non-Observed Economy, based on the recent UNECE survey.

SUMMARY OF THE MAIN CONCLUSIONS REACHED AT THE MEETING

6. Recommendations for future work are given below. Other conclusions that the participants reached at the joint ECE/Eurostat/OECD meeting on the above topics are presented (in English only) in the Annex to this document. The report on the discussions of the ECE special session is available in a separate document that is posted on the ECE website.

RECOMMENDED FUTURE WORK

7. In view of the current process for updating the 1993 SNA, the meeting recommended that a joint ECE/Eurostat/OECD meeting be held in the Autumn of 2004 and 2005 to discuss issues of the 1993 SNA update. It is essential that interpretation and translation into English, French and Russian be ensured.
8. The meeting also recommended that a further joint ECE/Eurostat/ OECD meeting be organised in April 2006 in Geneva similar to the one held in 2004. It should concentrate on addressing some fundamental and practical issues of national accounting. A special session for representatives of the CIS countries and other transition economies should be organised back-to-back with the main meeting.
9. The following substantive topics were considered of greatest interest for possible inclusion in the agenda of the 2006 joint ECE/Eurostat/OECD meeting on national accounts:
- (a) Internationalisation and globalisation and how to deal with them in NA;
 - (b) Quarterly accounts estimation methods: including quarterly sector accounts, quarterly supply and use tables;
 - (c) Regional aspects in the national accounts;
 - (d) National Accounts and employment data;
 - (e) Financial accounts;
 - (f) Producing long time series when major classifications change;
 - (g) Satellite accounts.

10. The meeting recommended that each topic be discussed in a separate session to be organised by a session organizer, selected in advance by the organising committee of the Joint meeting. The following countries volunteered to organize sessions: Statistics Canada - for topics c) or g); Statistics Netherlands - for topics a), b) d) or f) and United Kingdom - for topics a), b) or c).

11. The meeting also recommended that the ECE secretariat, in consultation with other international organizations, undertake the following work:

(a) Update the publication on NOE - Inventory of national practices.

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SUMMARY OF DISCUSSION

Item 3: Short-term statistics and their relation to National Accounts (including flash estimates of GDP)

Session Organiser: Robin Lynch (ONS, UK)

Discussant: Jacques Bournay (INSEE, France)

Invited papers: OECD, United Kingdom

Supporting papers: Finland, Italy

1. In introducing the discussion, the Discussant noted that statisticians are urged to reduce their delay of production and publication of economic information by the authorities (governments and international organizations, like Eurostat and IMF) and business users, notably those around the stock exchange. Therefore, finding suitable measures to produce reliable estimates of GDP with as short a time delay as possible is at the top of the agenda of all statistical offices.

2. The OECD presented the review of indices of service production for OECD member countries. A Task Force on Short-term Indicators for Services (STISTF) was set up with the aim of extending the range of indicators for the services sector on a monthly and quarterly basis. The review made by the Task Force showed that only a few OECD member countries cover the services sector comprehensively and with high frequency (Canada, Korea and UK). A comparison of various aspects of the index of services production (ISP) compilation was made. Although the analysis was based on a very small number of countries, the issues and problems identified are relevant to other countries. In order to harmonise the different practices in countries, agreement on definitions for services indicators is considered to be essential. However, national differences can be tolerated due to the many limitations with regard to data availability, resources, priorities, statistical environment, etc. National classifications are difficult to harmonise in the short term and therefore the preference is to develop monthly ISPs with clear consideration of user needs such as business cycle analysis and the compilation of quarterly national accounts.

3. The STISTF plans to prepare international guidelines for a monthly (or quarterly) ISP. The first version of the manual should be available by the end of 2006. Its aim is to harmonise compilation methodologies, definitions and titles for key variables of short-term service production; and to recommend suitable variables to be used to measure output of various short-term services activities.

4. The ONS (UK) presented its invited paper on reviewing the methods and approaches of the UK National Accounts (NA). The ONS has initiated a re-engineering project with the aim of improving the quality of NA. Based on the review of methods used to compile NA and on informal discussions with other national statistical offices (NSOs), a series of recommendations to improve UK NA methods were made. The recommendations have implications for further methods development, revisions management and the effective communication of changes to NA users. The review of NA methods and approaches will potentially have an impact on both NA outputs and other products that depend on NA outputs. In

order to manage the revisions, a clear set of principles will be needed to ensure that users understand the process.

5. The paper by Finland presented their experience with monthly indicators of GDP, flash estimates and quarterly GDP. The experience goes back to 1986 and has given fairly good results. The paper by Italy looked at solutions to the problem of the working/trading day adjustment of the Italian quarterly national accounts.

6. In the discussion that followed, it was noted that a close relationship exists between short-term economic statistics and national accounts, but that the level of judgement involved in creating short-term statistics necessitates better documentation and a possible annual review of the judgements being made. Useful sub-sector indicators are highly desirable for economic policy-making, and ISPs are particularly useful where services account for the majority of GDP. Common problems were recognised in collecting reliable price statistics and the fact that more and more administrative data has to be used due to increasing response burden in surveys.

7. The reliability of employment indicators was questioned, as this is one of the most difficult areas of economic statistics to measure. The meeting agreed that employment data was not the most reliable variable, but it is more practical as it is relatively more quickly available, providing a good starting point in the absence of any other variables.

8. Delegates expressed interest in learning the primary purpose of the UK's ISP. The UK stated that its ISP's original purpose was to support the national accounts framework, primarily as a volume indicator. The UK pointed out, however, that questions remain over how to benchmark, and how to deal with seasonal patterns in quarterly data against those in monthly data. In addition it was emphasised that developing an ISP required substantial resources. In order to obtain these resources, it had proved necessary to point out the poor quality of existing indicators.

9. The OECD pointed out that ISPs are useful for national accounts on a monthly level, but not necessarily in terms of direct use in the accounts. Broad trends could be elicited from ISPs, which could prove useful in constructing quarterly accounts.

10. The meeting considered the pros and cons of reconciling the 3 measures of GDP using a bottom-up rather than a top-down approach. Some delegates suggested that the production measure alone did not offer the best measure of GDP as, in essence, national accounts should represent an overall picture of economic performance based on as many sources as possible. It may be the easiest measure to use for some countries but this does not make it the most reliable. The UK responded, however, that in the UK, at least, the production measure does give the best data but recognised that other data should also be included as much as possible. The UK pointed out that it wished to move away from compiling aggregates in its reconciliation process towards a more bottom-up approach, as the former had produced some difficulties. Constant Price Supply and Use Tables are being developed to this end.

11. The delegates considered the prominence which econometrics should be given in the national accounts. It was agreed that econometrics was a useful tool, but that estimates should always be data-driven as much as possible.

12. The use of automatic balancing techniques was discussed. The Netherlands pointed out that their experience of automatic balancing had been a negative one, particularly in terms of addressing when and to what extent to apply it. Potential improvements in timeliness that it might bring were also questioned, as results still had to be checked for structural imbalances. The UK was also sceptical about the potential success of such a balancing technique, but felt that future success with more short-term data might not be unfeasible.

13. In conclusion, the meeting pointed out the need to share experience internationally and to prepare recommendations or guidelines on how to produce early estimates of GDP. The meeting also expressed demand for harmonised standards and goals in the field of ISPs.

Item 4: Consistency of time series: methods and practical solutions for compiling long time series when there are changes in methodologies and classifications.

Session Organiser: Michel Girard (Statistics Canada)

Discussant: Eeva Hamunen (Statistics Finland)

Invited papers: Russia, Norway and Canada

14. The session was introduced by the Discussant who emphasised the importance of consistency of time series for all the main uses of National Accounts data, that is, for following the development of economy over time, for macroeconomic analysis, forecasting and economic modelling. Moreover, consistency is very important for international comparability. Some requirements for consistency can be underlined, namely that major changes to definitions should be made at the same time, there should be links between different classifications (double coding is useful) and changes should be coordinated.

15. The presentation of the invited paper by Russia gave an overview of the revision of time series in Russian National Accounts for the period of 1995-2002. It was the first revision in the history of Russian SNA on such a large scale. The need for a thorough revision stemmed from changes in basic statistics, the need to refine the context of economic activities, to update data of industrial statistics and to include data from new sources. The paper also presented the problems that arise in compilation of coherent quarterly and annual time series in a rapidly changing economy. New methods for constant price calculations were employed, using a fixed base year (1995) instead of previous year as was the tradition earlier. The absence of Paasche price indices made it more difficult to deflate the components of GDP and a lot of methodological and research work on prices was required to implement the NA revision. It can be expected that the shift to a new classification of activities in 2002 in Russia will also provoke serious problems in constructing the respective NA time series. The invited paper from Norway presented experiences on treatment of changes in methodologies and classifications when compiling long time series of national accounts. The paper describes main revisions to NA in Norway in 1995 and 2002. As the statistical office is responsible for the macroeconomic models, their close relationship with NA has been important for the strong dedication to establish long and consistent time series. The presentation stressed the importance of a good organization of the revision process. A lot of attention was paid to setting up an efficient technical infrastructure. A common coding and production system for all parts of NA proved very useful. Consistency within different parts of NA estimates was considered to be of

utmost importance. It implied coordinated work to align the central frame NA, the labour accounts, the balance of payments, the satellite accounts of tourism, and the underlying government accounts.

17. The invited paper by Canada described the implementation of the North American Industry Classification system (NAICS). It gave a detailed description of the change from the old Standard Industry Classification (SIC) to the new NAICS. NAICS is a joint product by Canada, United States and Mexico and its use in Canada is conditioned by the tight economic links and shared export-import data with United States. To make a link, the input-output tables for 1997 were produced according to both SIC and NAICS classifications. The business register and some surveys were double coded. Because of this, the process required few resources and was transparent to users. The paper presents a useful example for other countries, which have to make a transfer from one classification to another.

18. During the discussion it was noted that several countries' experience shows that it is better to make revisions more frequently to avoid big adjustments going back a long time. In this case, the know-how of what was calculated and how is still present in the office, which makes the process easier. Furthermore, it was stressed that changes are also better accepted by users if the users are more used to seeing the data revised.

19. However, implementing major revisions is very time and resource consuming. Therefore, a balance needs to be found between better knowledge of the new data and time series that go back further into the past. For example, for structural analysis, the detailed data on benchmark years is more important than long continuous time series. It is not worth putting a lot of effort into small revisions. It is also important to find a relevant level and structure of classifications; it is not always possible to revise at a very detailed level because of limited resources.

20. It was pointed out that it is very useful to quantify the effects of the revision process, making a difference between pure statistical effects and conceptual changes. Making the adjustments public helps to minimise the confusion of users over the NA revisions. It was stressed that maintaining the confidence of users when making revisions is very important. It has to be ensured that users are aware of the conceptual benefits of the methodological changes and there should be no surprises to users. Users do not mind small revisions of data but they do mind when the story changes (e.g. instead of GDP increase, a decrease is shown); therefore it is important to have a story that makes sense. Often, users are at the same time also respondents and the revision approaches should be explained to and consulted with them.

21. It was noted that a distinction should be made between the base year (i.e. the year in which the weights are used) and the reference year (i.e. when prices=100 or volume=100). Some participants pointed out that the best way to calculate GDP volume indices is to use the weights of the previous year. However, there can be a loss of aggregation with chain volume indices, which can be quite remarkable with high inflation. A solution could be to re-reference annually. In this way, there can be a loss of additivity for earlier periods but, for many users, the latest periods are the most important.

22. In concluding the session, the main lessons learned in implementing changes in classifications and methodologies were re-iterated:

- it is important to plan and organise the revision process carefully;
- a good technical infrastructure (coding system) is needed, double coding of the basic data (e.g. the business register) is useful; the business register should be at the top of the agenda, money can be saved when its data are coherent;
- transparency and adequate information to users is important; it is wise to present revisions in a positive way, emphasising the improvements that the methodological changes bring.

Item 5: Quantitative methods to check and control the quality of national accounts.

Session Organiser: Brian Newson (Eurostat)

Discussant: Irena Tvarijonaviciute (Statistics Lithuania)

Invited papers: Eurostat, Slovak Republic, Estonia

23. When opening the session, the Discussant emphasised the importance of statistical quality of the NA. This is especially relevant in the EU context as the Gross National Income (GNI) is a key determinant of member states' contributions to the EU budget and allocation of EU structural and regional funds. The NA quality reflected over the exhaustiveness of data has been a focal point for statistical work since the early nineties in the EU member states. At the same time, the candidate countries have made great efforts to bring their statistical systems into compliance with ESA95. Eurostat has undertaken several activities to assess and improve the quality of the NA: a pilot project on process tables in 8 EU member countries and projects to improve the exhaustiveness of NA in Candidate Countries.

24. The invited paper by Eurostat gave an overview of the work in EU to measure the quality of NA. All EU Member States (plus Norway and Iceland) have prepared Inventories describing in detail the sources and methods used for the compilation of GDP and GNI. However, it is very difficult to evaluate the quality of NA based on these 400-page inventories. Therefore, a Task Force has proposed Process Tables as a possible solution to analyse and assess the reliability of NA. The tables show systematically the source data and the conceptual and exhaustiveness adjustments that are made for each industry and for each component of the expenditure and income approaches.

25. A pilot test of the Process Tables was carried out in 8 EU countries (Austria, Belgium, Greece, the Netherlands, Sweden, UK, Germany and Italy; France has recently submitted a process table but the results have not been analysed yet). Most of the countries and Eurostat found the pilot test to be a useful tool to better understand the differences in the NA compilation process among member states: the relative importance of different types of data sources and adjustments. However, it was stressed that the size of adjustments should not be interpreted as an indication of the quality of NA data. Further work is needed to harmonise the classification of the sources and adjustments across countries to enhance the comparability of the Process Tables.

26. Sweden reported its experience with the Process Tables. At first, it was considered as an additional burden and there were problems with filling in the columns. However, afterwards

the tables were found to be very useful for explaining the NA derivation and adjustment to users who are not familiar with the NA system.

27. Some countries pointed out that, in their view, the Eurostat survey did not take into account correctly the sources used for NA compilation (especially concerning the administrative registers). Often a mixture of data from surveys and administrative sources is used. Eurostat explained that this analysis needs further refinement.

28. The importance of having such a type of quantitative information was stressed. The Process Tables are important for increasing the transparency of the NA compilation procedure. The traditional standardised quality reports cannot be used for this purpose, as they are suitable for basic data but difficult to compile for NA and other complex synthetic statistics. It was also pointed out that it is important to show in detail the adjustments made: sometimes the total adjustment is close to 0 but adjustments to individual components can be quite significant.

29. The invited paper by the Slovak Republic presented the results of the survey of estimating the non-observed economy (NOE) and other projects carried out to improve the exhaustiveness of NA (project on Final Consumption of Households, Supply and Use Tables and Employment data reconciliation). The survey found that estimation of underreporting of revenues is still one of the weakest areas in measuring the NOE. This might be actual also in other countries, not only candidate countries. The paper gives a detailed overview of all types of exhaustiveness adjustments based on a systematic and consistent framework design by Eurostat, the so-called "tabular method". By output approach, the adjustments represent about 15% and by expenditure approach about 9.5% of GDP. It was pointed out that it would be interesting to know if the gap between the production and expenditure side estimates of the hidden economy reduces or widens.

30. The invited paper by Estonia presented its project on the analytical tables for the estimation of household final consumption expenditures (HFCE). The aim of the project was to improve the basic HFCE estimates in compliance with ESA 95. A set of analytical tables was prepared which clearly identify the various steps and adjustments made from raw data until the published figures. The tables can be customised according to country-specific situation, e.g. to include additional rows and columns, or to choose the level of COICOP detail. Estonia has been using this approach since Eurostat's project on HFCE was initiated in 1999. The analytical tables prove to be a good tool for analysis of basic data quality.

31. Several countries commended Estonia and the Slovak Republic on their systematic and well-documented approach. It was emphasised that the transparency of NA compilation is a big step forward for transition economies. Similar projects have also been carried out in other candidate countries, which have done tremendous work over the last ten years to make their NA compliant with EU standards.

32. There was some discussion on the use of the income approach. Several countries consider this to be the weakest of the three NA calculation approaches. It was noted that although UK was found to have a good income approach estimate, they consider this to be less reliable than the other two approaches. Ireland, for example, has used for a long time the income measure as the primary estimate for GDP; now they are balancing between income and

expenditure measure. It was pointed out that it would be interesting to see the dynamics of balancing between income and other measures over a number of years.

33. It was stressed that transparency of the compilation process becomes more and more important for improving the quality of NA. It is important both for users outside the office as well as for colleagues in the statistical office. It can allow the easing of tension between basic data collectors and NA compilers. Explaining to data providers what is happening with the data and where the biggest adjustments are made helps to improve the quality of the basic data and thus of the NA.

34. There was general agreement that the presented practical examples were very useful in providing quantitative methods to assess and improve the quality of the NA. The acquired experience and lessons learned in their implementation are very useful for other countries. The Eurostat Process Table was found to be a very powerful device; all countries are encouraged to use the same approach. It is a good tool to assist in improving the reliability of NA but does not constitute a measure of accuracy of the NA.

Item 6: Treatment of taxes and social contributions (including accrual accounting and issues relating to the update of the SNA93)

Session Organiser: Ole Berner (Statistics Denmark)

Discussant: Jacques Bournay (INSEE, France)

Invited papers: Denmark, Italy

35. The Discussant introduced the topic. He noted that there are two aspects to treating the taxes and social contributions: what amount has to be recorded and at what time. Concerning amounts, the question is whether to record amounts due or amounts actually paid and how to treat the unpaid amounts. Concerning the time of payment, there are three principles of recording in the SNA93: (1) preferably at the time the economic event occurs (accrual basis); (2) when the amount to be paid is known; or (3) when the payment is made (cash basis). Among these three, accrual recording is theoretically clearer, but there are some conceptual problems and a lot of practical difficulties. The problem is even more difficult for quarterly accounts because of payment in instalments. Moreover, comparability between countries is harmed by national peculiarities in the fiscal and social systems. In the EU, this question has been extensively treated through the excessive deficit procedure, which aims to show fair net borrowing of government. In trying to find solutions to these problems, it is necessary to analyse all the consequences of one or another approach for the NA estimates.

36. The invited paper by Italy presented the implementation of the accrual method of recording tax revenues in Italian National Accounts and assessed the difference between cash-based figures and accrual-based figures. The main reasons to move from cash to accrual approach are still valid: the superiority of the economic significance of the accrual and the fact that cash revenues can be easily manipulated by policy makers. An application of the accrual principle to the economic accounts of the General Government is essential in order to guarantee the significance of the net lending/net borrowing of the sector. Only the amounts accrued give

the actual measure of the impact of the transaction on the income of the units involved and can be used to represent their economic behaviour.

37. In recent years, the gap between accrual estimates and cash estimates in Italy has widened. In NA, the difference may give rise to a discrepancy between net lending/net borrowing of institutional sectors estimated by economic accounts and by financial accounts. Therefore, both accrual and cash estimates should be produced, so that the discrepancy between the two can be assessed and explained. The solution to these problems is the use of basic data that allow a full evaluation of the real value of debts and credits arising in any given period. To this end, administrative sources should be analysed in detail and the different recording methodologies used in public accounts should be adapted. The difference between accrual and cash registration generates a corresponding credit/debt that should be registered in financial accounts.

38. In the discussion that followed, a question was raised of consistent recording of the adjustment for accruals in the Secondary distribution of income account and in the item "Other accounts receivable/payable" in the Financial account and how these adjustments would affect the net lending/net borrowing calculated both from the Financial accounts and Non-financial accounts.

39. Attention was drawn to the fact that accrual estimates presented in the tables are systematically larger than cash-based figures. This is surprising in the long run where one would expect that the adjustments should cancel out. It would also be of interest to know how bankruptcies and cancellations are accounted for.

40. It was explained that the calculation system in Italy ensures consistent recording of the difference between accrual and cash data on taxes, both in the non-financial and in the financial accounts. For each tax, this difference is split by counterpart debtor sectors to obtain balanced net lending/net borrowing. Bias in terms of accrual systematically exceeding cash data exists only for some taxes, e.g. personal income tax. This is related to the rise of personal incomes and also to accounting for rebates. In other cases, such as the VAT, for 2003 the cash data was higher than the accrual estimate due to a large amount of arrears paid in that year. The way taxes are assessed on accrual basis in Italy does not give the possibility of recording amounts that are not likely to be collected. Assessments are made on the base of tax declarations that are filled in when the tax is paid. The difference with the amounts cashed in the public accounts is due to the time taken by the concessionary to transfer the money to the government. The present tax recording system in Italy does not allow the estimation of time-adjusted cash as the cash amounts cannot be linked to the period they refer to. Only the total value of cash referring to previous periods is known.

41. The invited paper by Denmark analysed how to define and record taxes and social contributions not expected to be paid. This topic has become an important issue in the SNA updating process because of the increased focus on the operational result of the government, in particular the net lending of government. In the European Union, this is an important political issue because of its central role in managing the Euro currency.

42. According to SNA93, all taxes evidenced by tax assessments should be recorded. The minor part which is never paid (e.g. because of bankruptcy) should be recorded either as the writing-off of bad debt by the government or as a capital transfer from the government. However, there is the question of whether taxes never paid should be accounted for within the NA system. It has been argued that all taxes not expected to be paid should not be allowed to improve the net lending of the government.

43. Two alternative methods have been proposed to solve the problem: to reduce the amount of taxes recorded according to the accrual principle by estimated amounts that are expected never to be paid (net revenue recording), or to record the taxes expected never to be paid as a capital transfer from the government to the sectors that did not pay. The analysis in the paper showed that the use of the net revenue recording principle introduces an anomaly in NA. Other creditors in the economy may experience losses of the same magnitude but only taxes and social contributions are reduced by the amounts never expected to be paid. Enterprises will thus be shown as being better off than they are in reality. If the net revenue recording principle is introduced as a general rule, certain kinds of taxes would still have to be recorded according to the full accrual principle. The Danish paper therefore recommends not to introduce this principle in the SNA. If the accrual principle is maintained but it is desirable to exclude the effect of taxes never paid from the net lending/net borrowing of government, the capital transfer model could be considered. However, it might also be worth considering that only taxes finally written off in the actual period should be recorded as capital transfers from general government to the relevant sectors.

44. It was noted in the discussion that the capital transfer method is also used in France to account for taxes that are never paid except for VAT. When the theoretical VAT is calculated by type of product, it is adjusted for fraud.

45. It was recalled that similar debates took place when SNA93 was discussed. One of the main concerns was that government revenues might differ significantly from the theoretical calculations based on gross accrual accounting for many different reasons (e.g. tax rebates, amnesties, negotiations, bankruptcies, fraud, hidden economy). It was agreed to include only the amounts due for payment (net revenue recording) to avoid including oversized tax revenues. In that respect, the new GFSM 2001 is fully consistent with SNA93. For some countries and some taxes, there could be a big difference between what is estimated and what is likely to be collected, for other countries the taxes not paid due to bankruptcy or other reasons are a very small portion. Therefore the update of the SNA in this respect should be made very carefully and the principles in SNA should be kept clear. It was pointed out that often the amounts that will not be paid will be known only after several years and trying to foresee this goes against the principles of SNA. Some participants expressed the opinion that this anomaly can be considered acceptable concerning the government sector but the same approach should not be used for other sectors.

Item 7: Conceptual issues and recent methodological developments related to the update of the SNA93

Session Organisers: Peter Van de Ven (Statistics Netherlands) and Jan Heller (Czech Statistical Office)

Discussant: Robin Lynch (ONS, UK)

Invited papers: UNSD, OECD, ECB

46. The meeting noted that all the members of the Intersecretariat Working Group on National Accounts (ISWGNA) except the World Bank, and some of the members of the Advisory Expert Group (AEG) on National Accounts were present, which provided a good opportunity for delegates to voice opinions and ask questions. The Discussant noted that the updating process promised to provide greater access to countries than before. Users should be engaged in the updating process and their comments taken into consideration. However, a balance should be struck between consultation and effectively reaching agreement on issues.

47. The ECB presented its invited paper on "Concepts of Government Debt". Government debt has gained a prominent role in the European Union because of the Maastricht Treaty and the Stability and Growth Pact. Therefore, a lot of work has been done in recent years to improve the quality of debt measurement within the framework of the government accounts. Two concepts of government debt were discussed and their relationship to the national accounting framework described: EDP debt and ESA95 debt.

48. It was pointed out that the different delimitation of the government sector in different economies can distort comparisons of the debt data. This distortion applies particularly to health and education services when general government sectors are compared, and to the provision of public utilities and transport when the public sectors are compared.

49. A question was raised as to why the gross measure of debt was being used when net debt better reflected reality. The ECB admitted that the net concept was preferable but the consideration of what is measurable was the paramount consideration. It is also an issue as to which net concept to use: net worth or net of financial assets. Some participants considered net worth a better measure and net debt concept excluding financial assets the second best solution. Delegates pointed out that leaving out financial assets when measuring debt (debt cannot exist without them) opens up national accountants to charges of political bias.

50. Delegates also questioned the use of nominal values, rather than the ESA recommended market values. The ECB responded that, as no rules had previously existed, they used nominal values, and in reality the difference between nominal and market value debt is very minor.

51. It was highlighted that the issue of government debt and deficit is important not only from a GDP perspective, but also from a policy and macroeconomic perspective, e.g. concerning the sustainability of government spending in relation to future pension liabilities. The issue will be discussed further in connection with the SNA93 review and the IMF manual on government finance.

52. The OECD presented the invited paper on "Progress of the Canberra II Group on the measurement of non-financial assets" and the UNSD the invited paper on "Updating the SNA93: setting the scope and recent methodological developments". The papers gave an overview of the organization of the updating process and of content issues that will be discussed.

53. The need for a comprehensive review of the SNA93 had been recognised by the UN Statistical Commission (UNSC) based on the large number of identified issues that had arisen from new economic developments and conceptual consistency perspectives. As a consequence, the ISWGNA was given a mandate to oversee the update of the 1993 SNA with the objective of publishing revision 1 (SNA93 Rev.1) in 2008. In this endeavour, the AEG on National Accounts, the electronic discussion groups (EDGs), the Canberra II Group on the Measurement of Non-financial Assets and other task forces are playing key roles. For a complete description of the updating process, please refer to the UNSD website <http://unstats.un.org/unsd/nationalaccount/snarw1.htm>

54. The updating process includes the following steps: deliberations on specific issues are carried out through expert groups that include the EDGs, city groups and regional commission meetings during 2003-2005. Recommendations of the expert groups are forwarded to the ISWGNA and made publicly available. Comments are invited from other regional and international expert group meetings on national accounts prior to being presented for discussion and approval at the meetings of the AEG. Tentatively, five meetings of the AEG are planned to discuss the proposed changes. The recommendations of the AEG will be sent to countries for comments after each meeting in the years 2004-2005. Consolidated recommendations for changes will be circulated to countries for comments in 2006 and submitted to the ISWGNA and AEG for approval by March 2007.

55. The question of access to the documentation produced in the discussion process was raised. The OECD explained that limited access had been provided in the past in order to promote honest discussion, but they will move toward a system where the authors of documents will have to mark their papers as 'not-for-circulation' if they so desire. In the meantime, authors of existing papers have until the end of May to identify any papers they do not wish made public, and then all non-marked papers will be made available.

56. Delegates called for numerical examples to be provided of the approximate impact throughout the accounts of proposed amendments to the SNA. The meeting was informed that the March 2004 meeting of the ISWGNA had urged all authors of issue papers to include numerical examples where it would help to explain their points.

57. Delegates urged the ISWGNA to ensure that transparency was maintained in the update process. The meeting agreed that, prior to each meeting of the AEG, there should be regional meetings to discuss the issue papers and to forward comments to the AEG for consideration. Countries would also have the opportunity to comment on the preliminary decisions of the AEG. Delegates were assured that the transparency of the process was considered extremely important by the ISWGNA but also recognised that the process needed to be contained and efficiency maintained in order to reach conclusions in two years' time. It was decided to enlarge the OECD meeting of NA experts (October 2004 and 2005) to a regional meeting (including all members of the UNECE) for discussions on the SNA update.

58. A point was raised to have a common EU position on the issues under discussion. Eurostat reassured the meeting that EU NA Working Group meetings will be organized to discuss issues from a common EU viewpoint and, if possible, to reach a common position.

59. A suggestion to introduce country voting on recommendations for the update was rejected. It was pointed out that this was not recommended by the UNSC and that such a process could be very impractical. Moreover, the AEG was seen to consist of a range of experts giving a broad range of geographical representation and they would seek to take into account the comments of regional meetings and individual countries. Countries were encouraged, however, to get involved in the process as soon as possible if they wanted to have an impact, with the EDGs providing an immediate forum.

60. The WHO pointed out that it had good experience and would like to contribute to the updating process where it concerned health accounts. WHO was invited to contribute 'as a country' via the UNSD website.

61. Some concerns were expressed about the potential capitalisation of R&D. The OECD recognised that such concerns were held by a significant minority but invited countries to raise them directly with the Canberra II Group.

62. The meeting recognised that the proposed changes to the SNA did not represent fundamental conceptual changes but rather implied a change in the economic classifications. This was identified as an ongoing issue and further opportunity for discussion would be afforded at the forthcoming ECE/UNSD Meeting on the revision of economic classifications in September 2004.

63. In response to a suggestion of reclassifying the output of central banks, the meeting re-confirmed that the cost approach was well established and is unlikely to be changed. It was accepted, however, that better allocation of financial services across sectors is still required.

64. Delegates were assured by the IMF representative that the Balance of Payments Expert Group would be able to comprehensively deal with the national accounts aspects of its work. Participants in the group have a high level of national accounts expertise and their recommendations would be addressed to the AEG on national accounts for their consideration.

Item 8: Information items

Presentations: UNECE, ECB

65. The UNECE presented the results of a survey of national practices in estimating the service lives of capital assets carried out in spring 2003. 41 countries participated in the survey. Because of changing investment patterns and high rates of flux in the transition economies, service lives of capital assets have become a crucial issue throughout all UNECE countries. Errors in service life estimates affect the accuracy of measures of capital stock and consumption of fixed capital. The survey analysed the variety of data sources used by countries for estimating the service lives of capital assets, how countries are dealing with changes in service lives and categorisation of assets. The results of the survey provide an important set of data to share experiences in order to improve capital stock measurement.

66. The European Central Bank (ECB) described a method for measuring revisions of statistical outputs. It suggests the use of indicators that distinguish between systematic and unsystematic revisions. Systematic revisions can be statistically tackled, and largely represent foreseeable changes to earlier estimates. The classical measures of revisions do not allow for this breakdown and should be used as a starting point for a deeper analysis. The devised quality indicators has been selected to be operational for Balance Of Payments and International Investment Positions outputs at the European level. The aim was not to present a unique measure of the overall level of quality, but to identify the different aspects of data quality that could be enhanced.