

Role of the National Accounts in the ICP



**National Accounts Working Group Meeting (INAG)
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- Introduction
- Lessons from the 2005 ICP
- Comparability problems in the national accounts
- Estimating basic headings
- Basic headings relating to production processes
- Negative values
- Possible data sources
- Issues for discussion

Roles of National Accounts in the ICP

- The reliability of converting national accounts statistics (in national currency units) to a common currency using PPPs depends on the accuracy and comparability of the national accounts statistics
- PPPs are calculated for each BH level using prices of products specified for the ICP
- The accuracy and comparability of the BH level expenditures are important in determining the accuracy and comparability of the real expenditures and of the PPPs at higher levels of the expenditure aggregation process, including GDP

The ICP requires

Cooperation of
national
statistical offices



Supplying NA data and collecting prices

Carrying out initial checks on the prices
data

Main challenge

To ensure that both the national accounts
and prices data used in the calculations
are of the highest possible quality

New
approaches

Structured Product Descriptions (SPDs): implemented to ensure the product prices were consistent between countries

Dikhanov Tables: implemented to assist in editing prices

Revisions to operational procedures: to avoid price distortions due to seasonal and regional differences

Identified issue

- Pressures caused by the need to develop new procedures for collecting and validating data led to insufficient attention being paid to national accounts data until later stages of the process

Goals for 2011 ICP focus on

- Improving the quality of real expenditures by collecting national accounts data earlier in the process
- Identifying the basic headings that are most likely to have a significant impact on the consistency between countries

Comparability problems in the national accounts

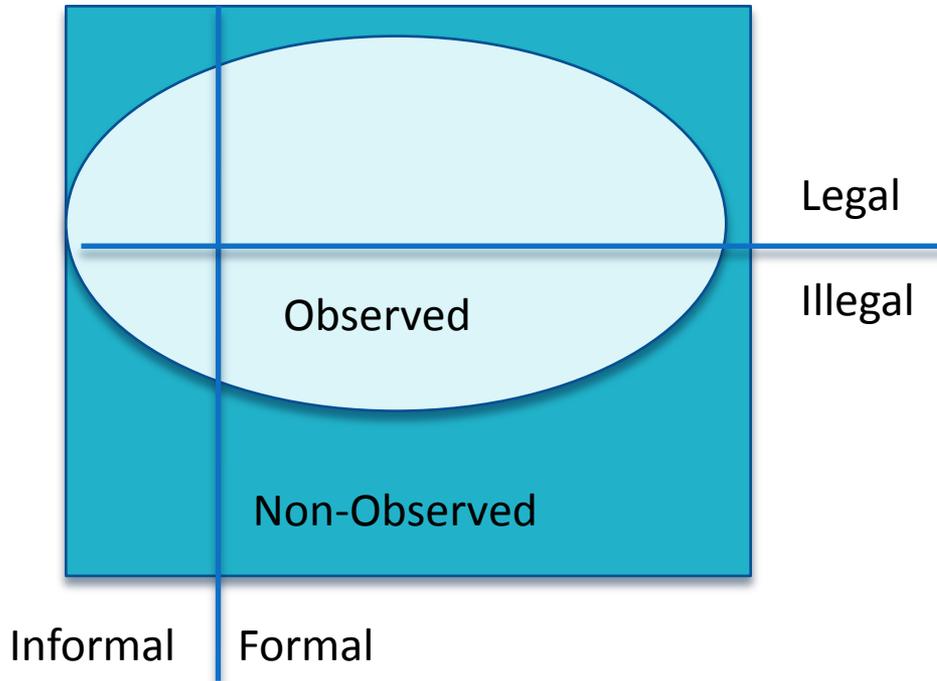
1993 SNA vs
1968 SNA

- Using 1968 SNA in compiling national accounts biases the ICP comparisons
 - GDP based on 1968 SNA will always be lower than that based on 1993 SNA

Exhaustiveness
of GDP

- All economic activities have to be included, whether legal and illegal
- Various terms are used to describe parts of GDP that fall outside the scope of admin records and statistical surveys on which the national accounts are based
 - underground economy, black economy, non-observed economy, informal economy

Comparability problems in the national accounts (continued)



- Terms do not always refer to the same thing across economies
- Informal economy and the non-observed economy may largely overlap but it is likely that at least some of the informal economy is included in most countries' GDP measures

- Subsistence production/consumption is a potential area of understatement
- The scope of economic surveys may exclude some businesses

Estimating basic headings

Bottom-up
approach

- Values for each BH would be estimated separately, with these estimates then being aggregated to higher levels (preferred approach)

Top-down
approach

- The values for GDP would be split into BHs using various indicators which may or may not be closely related to national accounts

In practice

- *In practice*, a combination of the two above approaches is applied

The Global Office recommends these 5 approaches

- Direct estimation
- Extrapolation from a recent year or from 2005
- Borrowing a per capita quantity or volume from a country in the same cluster related to a particular BH
- Borrowing a structure related to a class, subgroup or group from a country in the same cluster related to a particular higher level heading
- Splitting a category's volume or quantity

Basic headings
that proved
problematic in
2005

- Per capita expenditure for imputed and actual rents (especially problematic for countries without broadly-based rental market
 - the Global Office recommends the “user-cost” method as an alternative
- Consumption of fixed capital for government
- The Global Office suggests countries use supply-use tables to assist in estimating BHs
- A commodity-flow approach may be used to estimate values for BHs that are particularly important in a country



Basic headings related to production processes

- The BHs required for the ICP relate to expenditure on GDP so it may appear anomalous that some BHs refer to production
- In government final consumption expenditure, the ICP defined a number of BHs that refer directly to production:
 - health
 - education
 - collective services
- The goal is to obtain the details required to estimate these purpose categories as the sum of the costs of production less any receipts from sales

- Expenditure aggregates that can potentially be negative:
 - change in inventories
 - net acquisition of valuables
 - net balance of exports and imports of goods and services
 - net expenditures by residents abroad
- Apart from net expenditures by residents abroad, the BHs ask for gross expenditures
 - opening and closing inventories
 - acquisition and disposals of valuables
 - exports of goods and services and imports of goods and services

Possible data sources

- No single data source is available for HFCE although a household expenditure survey (HES) may come close
- Data sources need to be supplemented for imputed items such as *Output produced for own consumption* and *Rent for owner-occupied dwellings*
- Some BHs contain illegal activities, which should be included in the national accounts if the activities are significant
- Ideally, a HES covers the whole country, all types of households and provides estimates of expenditures over a full 12 months
 - in practice, HES data may be deficient in several respects

- Household expenditure surveys (HES) provide useful information for estimating expenditures
- HES can be supplemented by other data sources such as
 - foreign trade statistics
 - food balances
 - data from nutrition surveys
 - administrative sources (sales tax or excise tax, vehicle registrations, etc.)
- Retail trade statistics are particularly useful for:
 - estimating expenditure on consumer durables
 - providing reliable information for products renowned for being understated in household expenditure surveys

Issues for discussion

1

Do INAG members agree that the Global Office should focus on the issues outlined above in order to improve the quality and consistency of the national accounts used in the ICP?

2

Is there a priority order in which issues should be covered by regional coordinators or should they be addressed on a country by country basis?

3

Do INAG members have any areas of particular concern that have not been mentioned in the agenda and which they would like included in the discussion?

THANK YOU