

International Comparison Program 2011 Round



Defining
the National Accounts Framework
for the ICP

Regional Coordinators Meeting
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Washington DC

National accounts and the ICP

- ▶ **The ICP is a joint exercise between national accountants and prices statisticians**
- PPPs provide a means of converting national accounts values into a common currency for comparison purposes
- ▶ **National accounts data are the key input into the ICP although collecting prices is a much more time-consuming exercise**

Use of PPPs

- PPPs are useful only when combined with other data
 - national accounts to obtain real expenditures
 - exchange rates to provide a price level index (PLI), which is a secondary use of PPP data

Importance of national accounts

- The national accounts directly provide the values on which the real expenditures (and the per capita real expenditures) are based
 - any shortcomings in the national accounts data will be reflected in the PPP-based real expenditures and associated data
- Additional use is to provide the weights to combine PPPs at the most detailed level to broader aggregates (including GDP)

1993 SNA

- The System of National Accounts, 1993 (the “1993 SNA”) will provide the national accounting framework for compiling the 2011 ICP
 - the 2008 SNA will be implemented in only a handful of countries by 2011

Uses of national accounts

- There are three approaches to measuring GDP
 - expenditure
 - production
 - income
- The expenditure approach is required for the ICP

Main expenditure aggregates

Household final consumption expenditure

NPISH final consumption expenditure

Government final consumption expenditure

Gross fixed capital formation

Change in inventories

Net acquisitions of valuables

Net international trade

ICP classification

Individual consumption expenditure

- by households
- by NPISHs
- by government

Collective consumption by government

Gross fixed capital formation

Change in inventories

Net acquisitions of valuables

Net international trade

Why a different ICP classification?

- The ICP classification is different because some items (e.g. health and education) are provided to varying extents by the private sector and by government
- The ICP classification better enables comparisons to be made between countries
- Data are to be supplied according to the SNA classification and Regional Offices will adjust them to the ICP classification

Basic price

- ▶ **Basic price is amount receivable by a producer from the purchaser for a unit of a good or service produced**
 - output less taxes payable plus subsidies receivable
 - excludes transport charges invoiced separately by the producer

Producer's and purchaser's price

- ▶ **Producer's price is amount receivable by a producer from the purchaser for a unit of a good or service produced**
 - output less any VAT invoiced to the purchaser
 - excludes transport charges invoiced separately by the producer
- ▶ **Purchaser's price is amount paid by the purchaser, excluding VAT, to take delivery of a unit of a good or service at the time and place required by the purchaser**

Relationships between prices

Basic prices

***plus* taxes (excluding invoiced VAT)**

***less* subsidies on products**

***equals* Producers' prices**

***plus* VAT not deductible by purchaser**

***plus* separately invoiced transport charges**

***equals* Purchasers' prices**

▶ In principle, purchasers' prices > producers' prices > basic prices

Three broad types of output

▶ **Market output**

- sold (or intended for sale) at economically significant prices

▶ **Output produced for own final use**

- goods and services retained for own final use by the owner of the producing enterprise

▶ **Other non-market output**

- goods and services produced by government or NPISHs that are supplied free or at prices that are not economically significant

Valuation

- ▶ **Market output valued at the prices observed in the market**
- ▶ **Non-market output valued at the cost of production**

Consumption

- ▶ **A consumption good or service is used without further transformation by households, NPISHs or government for the direct satisfaction of their needs or wants**
 - individual or collective
- ▶ **Actual final consumption**
 - considers who uses the product rather than who pays for it
 - includes goods and services used by but not directly purchased by the final user

Valuing non-monetary transactions

- ▶ **Goods or services acquired without any payment**
 - barter
 - income in kind
 - goods and services produced on own account
- ▶ **Should value at equivalent market price**
- ▶ **Unpaid household work that produces services is excluded from SNA production**
 - but owner-occupied rent is included

Gross capital formation

- ▶ **Total value of acquisitions less disposals of fixed assets during the accounting period**
 - used repeatedly in other production for more than one year
- ▶ **GCF should be valued at purchasers' prices**
 - includes costs of ownership transfer
- ▶ **Inventories and net acquisition of valuables**
 - reference PPPs will be used

Supply–use tables

- ▶ **Focus on the goods and services account**
- ▶ **Useful in comparing data from different sources**
 - “commodity-flow” or “product-flow” method
 - production, international trade, household expenditures, investment

Total supply = output + imports

**Total uses = intermediate consumption + exports +
final consumption + gross capital formation**

Supply-use tables (continued)

- ▶ **Can be used to estimate (residually) one component for which no data source exists**
 - gross capital formation often estimated this way
- ▶ **Supply-use tables can be expressed in volume terms**
 - similar balancing process to the one for values
 - provides check on the consistency of deflators

Basic headings

- The most detailed level at which national accounts data are required is the basic heading
 - 155 basic headings were used in the 2005 ICP
 - some regions included additional basic headings for their own purposes
- Any changes to basic headings will be based on an analysis of their effects on the 2005 ICP results

Basic headings (continued)

- **Have to maintain consistency between the basic headings in each region**
 - regional specific basic headings should be based on a more detailed specification of one of the world-wide basic headings
- **Basic headings are not just the building blocks for the national accounts**
 - they are the starting point for developing pricing lists because they define the level at which product prices must be available

Comparability, representativity

- **Not every listed product has to be priced**
 - a balance is required between comparability and representativity
 - pricing too many non-representative products can distort the links between the national accounts and the prices underlying the PPPs
- **PPPs for basic headings combined to the broader national accounts aggregates (including GDP) for publication**

Values for basic headings

- National accounts values required for all basic headings
 - zero values for basic headings lead to distorted PPPs and real expenditures
- If countries do not supply values, the regional coordinators have to estimate them
- Individual countries are in a better position to make such estimates than the regional coordinators are

Estimating basic headings

- ▶ **An even split of the values at the next highest level is not satisfactory**
- **Several better possibilities are available**
 - they will be described in detail in the national accounts guidelines in the updated ICP Handbook

National accounts requirements

- Main objective of ICP is to compare the real GDP of participating countries
 - requires reliable and consistent estimates of the level of GDP in national currencies
- Regional Coordinators and each country's national accountants act together to ensure the region's accounts are suitable for the ICP

National accounts requirements (cont)

- The 2011 ICP will be based on the 1993 SNA's conceptual framework
- GDP must be “exhaustive”, which means all economic activities have to be included
- It may be necessary to look closely at the following areas
 - crops and livestock for own consumption
 - legal “underground” activities

Underground activities

- Open markets
- Street traders
- Itinerant vendors
- Construction workers
- Informal taxis
- Vehicle repairers
- Informal personal services
- Shuttle trade
- Illegal activities
 - prostitution
 - drugs
 - smuggling

Some problem areas

- Consistency between national accounts valuations and the prices underlying PPPs
- Major problem areas
 - imputed rents of owner occupiers
 - purchase of motor vehicles
 - goods produced for own consumption.
 - goods and services provided as income in kind
 - individual consumption expenditure of NPISH output

