ICP National Accounts Working Group (INAG)

1 Background
The International Comparison Program (ICP) is a worldwide statistical initiative to collect comparative price data and estimate purchasing power parities (PPPs) of the world's principle economies. Using PPPs instead of market exchange rates to convert currencies makes it possible to compare the output of economies and the welfare of their inhabitants in real terms—that is, controlling for differences in price levels.

National Accounts (NA) are a critical input into the ICP because they directly provide the values used in deriving PPPs.

2 Introduction
“The most common use of national accounts is to examine the changes over time in GDP and other major aggregates, with the volume measures being particularly important in this regard. While some users analyze some detailed data in the time series national accounts, most analysts examine the relationships between broader national accounts aggregates. As a result, the consistency of data sources from one period (generally a quarter or a year) to another is a key aspect of data quality assurance. On the other hand, the ICP requirement is primarily for “one-off” data sets, with very detailed data needed, but only once every several years.

The estimation techniques used in compiling the time series national accounts can assist in obtaining the detailed data required for the ICP. In particular, the commodity-flow method and supply-use tables (SUTs) can be used to produce estimates of some components of expenditure on GDP that are not compiled as a matter of course in the time series national accounts.

The task of splitting GDP expenditures into the detailed components (basic headings) required for the ICP would be relatively straightforward if the broad aggregates in the national accounts were based on combining detailed data from bottom up. In such a situation, detailed prices, production data and expenditures would be available fairly readily. However, the paucity of basic data sources precludes such a simple solution in most countries in the world.

It is essential to make the most of existing statistics to maximize the consistency in the national accounts activities for the ICP. Consistency is the key requirement: consistency between prices collected in the field and prices embedded in GDP expenditures, between production data and expenditure data, between import prices, producers’ prices and purchasers’ prices, between wholesale prices and retail prices. Consistency is also important when assessing the plausibility of per capita expenditures at the basic heading level in nominal and real terms, both within a country and between countries belonging to similar economic clusters.
Disaggregating GDP into the detailed basic headings required for the ICP is the core part of the national accounts data needed for the ICP. In principle, only details based on the expenditure approach are required for the ICP. However, the other approaches (particularly the production approach) should also be taken into account. (See paragraphs 19 to 21 of the chapter “The national accounts framework in the ICP” for more details about the three approaches to measuring GDP.) The clear distinction usually made between the three approaches is not always justified as the three methods rely on the same pool of data, at least to some degree, although the extent varies across countries. For example, given the definition of government services, output for these services is the starting point for calculating government final consumption expenditure. Also, in the absence of a survey of businesses’ capital expenditures, the major sources of expenditure data for machinery and equipment are import statistics and information on the outputs of producers of these products. If a full set of data is available for businesses (i.e. value of output, intermediate inputs, wages and salaries paid, taxes paid etc.) then the production and income approaches will be identical because the gross operating surplus is measured as the balancing item between the production-based measure of value added within the business and the other components of the income-based approach.

In cases where all these data sources are available, the various data sets can be reconciled in a supply-use table. The commonalities between the data sources should be used to the extent possible to estimate GDP or its detailed components, particularly using the production and expenditure approaches. A critical advantage of having data on both these approaches to measuring GDP is that it enables the source data to be cross checked and validated so that the best possible data are available on the components of expenditure on GDP.” [Source: The ICP and National Accounts Practices; Operational Material; Global Office]

3 Objectives

Splitting GDP expenditures for the ICP is a “major statistical exercise which requires a great deal of cooperation and coordination between prices statisticians and national accountants. Inevitably, a large part of the overall work program is directed at identifying the representative and comparable products to be priced and then collecting the prices required to produce PPPs. However, the national accounts are a critical part of the overall ICP. PPPs are of no use unless other relevant data are available to use with them. For example, PPPs are combined with national accounts data to produce real expenditures expressed in a common currency, which can be used to compare the relative size of countries. PPPs can also be combined with exchange rates to provide price level indexes (PLIs), which show the relative price levels in different countries thereby enabling countries to be compared on the basis of whether they are “expensive” or “cheap” to live in or to visit.

It is clear the national accounts have a major impact on the overall outcomes of the ICP and one of the aims in the 2011 round is to improve the quality of the national accounts data. Any errors in the national accounts data will have a direct impact on the real expenditures derived by applying PPPs to the national accounts values.
Countries participating in the 2011 ICP round will be required to provide a very detailed breakdown of the final expenditure categories of gross domestic product (GDP). There are 155 detailed expenditure sub-classes or basic headings involved, and they are defined in the ICP Expenditure Classification. A detailed breakdown of the national accounts aggregates is needed to provide the values that are converted into real expenditures at the basic heading level. These values also provide the weights that are used in calculating the PPPs at more aggregated levels, up to the level of GDP itself. As is generally the case with price indexes, the prices of goods and services that account for large shares in final expenditure are given a larger weight in calculating the PPPs for broader aggregates than are the prices of goods and services that have relatively small shares.” [Source: National Accounts Framework in the ICP; Global Office]

In view of the above an ICP National Accounts Working Group (INAG) is being established whose overall objective is to support the Global Office in ensuring that detailed GDP expenditures compiled by the countries participating in the 2011 round of ICP are sound in terms of the adherence to the SNA-93 and comparable across the countries.

The specific objectives are to:

- Ensure that GDP for the reference year is forecast/estimated in compliance with the SNA requirements;
- Propose practical methods of splitting GDP into 155 basic headings;
- Propose practical methods of ensuring consistency between the estimated expenditure values and prices collected in the ICP surveys; and
- Ensure consistency between data collected for comparison-resistant areas and GDP expenditures.

4 Terms of Reference

The tasks of the INAG members include providing inputs to various methodologies being prepared in the main areas of the ICP to ensure inter-area consistency from a National Accounts viewpoint. This will entail collaboration with experts in those areas, and a wide knowledge of all ICP aspects. The members are also expected to provide technical assistance and training to regional agencies and countries on ICP methodology.

The tasks will include but not be limited to:

- Identifying issues for which practical recommendations will be proposed to the countries;
- Providing input to the preparation of regional workshops on National Accounts for ICP;
- Reviewing country documentation on national accounts metadata in order to ensure the consistency and comparability of the accounts across regions;
- Providing inputs into the processes of defining methodologies for comparison resistant areas (public and private health services, public and private education services, compensation of employees, construction and equipment) to ensure the consistency of methods/approaches proposed therein with SNA;
• Preparing notes on concrete steps to be taken by national accountants to implement the proposed methods/approaches in compliance with SNA requirements;
• Preparing papers and presentations for regional workshops on the implementation of the guidelines; and
• Supporting National Accounts data validation at country or regional level.

Specifically, the working group will focus on providing practical advice to country statisticians on these and other related topics such as:

• Global Office’s national accounts reporting forms
• Commodity-flow approach and supply-use tables
  o Valuation (basic → producers’ → purchasers’ prices)
  o Price-factor method for pricing equipment
• Estimating basic heading details
  o Implications of errors in basic heading data
  o Indirect methods of estimating basic heading data
• Exhaustiveness
  o NOE
• Own production/consumption (particularly focusing on subsistence production)
• Income in kind
• Imputed rents
  o Consistency between values and real expenditures
  o User cost approach
  o Quantity approaches
• Consumption of fixed capital for government
• FISIM
• Net expenditures abroad
• Data validation procedures

5 Reference material

The reference material to be used by the working group will include but is not limited to:

• The SNA Manual
• The National Accounts Framework in ICP
• The ICP and National Accounts Practices
• The National Accounts Forms for ICP
• The ICP Book

6 Time Frame

The working group will support the ICP Global Office until the end of the 2011 round.