

2011 ICP Regional Coordinators' Meeting

Defining the national accounts framework
for the ICP





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