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ECONOMIC STATISTICS AT THE 30TH SESSION OF THE STATISTICAL COMMISSION By Károly Kovács, UNSD (For Information)

The Statistical Commission met from 1–5 March 1999 and discussed several issues on economic statistics. Documents for the meeting are available in all the six official languages of the United Nations at the following homepage:
www.un.org/Depts/unsd/statcom/sc99.htm

assess progress and/or to identify difficulties encountered by countries or groups of countries in their implementation efforts so as to focus better on technical cooperation activities. In this regard the secretariat was asked to strengthen the analytical portion of the milestone assessment.

The Commission approved the ISWGNA proposal for an updating mechanism for the 1993 SNA, already described in the newsletter (issue no. 7). The only amendment to the proposed mechanism refers to the period that the member states of the Statistical Commission are given for final approval of an amendment - this period was extended from 30 to 60 days. With regard to the specific amendments, the Commission agreed in principle with the one referring to the treatment proposed for financial derivatives, but asked the ISWGNA to consider specific comments made on the text and recirculate the redrafted text to all national statistical offices. The Commission also approved the draft Classifications of Expenditure According to Purpose. With respect to the milestone assessment it was recalled that its purpose had been to create an instrument to

The Commission welcomed the improved reporting format on the activities of city groups and reemphasized the need for city groups to formulate a clear objective and agenda. The evaluation report on the ICP was commended and it was noted that while the ICP served several important needs, in its current form it suffered from some serious drawbacks, which hampered its effectiveness. For more information please refer to ICP News, April 1999 and to Commission documents. It was acknowledged at the meeting that the IMF's Special Data Dissemination Standard (SDDS) has had positive impacts on the statistical systems of many countries, but concerns were expressed about the proposed extension to the area of external debt statistics.

UNSD'S SUPPORT TO SNA IMPLEMENTATION IN DEVELOPING COUNTRIES By Jan W. van Tongeren, UNSD (For Information)

UNSD's programme on SNA implementation is executed in close collaboration with other international and bilateral programmes. In the regional context, pilot compilation in one or more countries is established and the experiences are disseminated through regional seminars, workshops and technical reports. UNSD's support of SNA compilation is generally based on a computerised approach, which aims at systematising the compilation and linking it

electronically to other statistical databases. It aims at extending the limited GDP compilation in most countries to institutional sector accounts, and in particular the household and non-financial corporate sector accounts, as a means of improving the statistically weakest parts of the accounts. As such, it further developed the analytical potential with regard to social issues (household sector accounts broken down by subsections and extended to social data) and the

link between production and financial flows including direct (foreign) investment flows. This is part of an effort to bring national accounting as close as possible to the user's needs by appropriate design of detail and scope of the national accounts, including satellite accounts, and by linking accounts to indicator and other analyses.

In Africa, UNSD is supporting two programmes. The first one focuses on Mozambique, but with extensions to other Portuguese speaking countries in Africa. The second programme is in Ghana and Cote d'Ivoire. Once these programmes are implemented, similar efforts may be undertaken in other countries of the Economic Community of West African States (ECOWAS).

In Central America, a close cooperation has been established between UNSD and the Central American Monetary Council (Consejo Monetario para America Central). Its emphasis is on establishing links between national accounting and 'financial programming' as supported by the IMF. GDP compilation is extended to institutional sector accounts with particular emphasis on financial accounts and balance sheets for most sectors. A computerised compilation approach with this orientation is being implemented in Costa Rica and Guatemala.

Other efforts are also underway in the Caribbean in close co-operation with CARICOM and a subgroup of countries through the Organization of East Caribbean States Secretariat and the East Caribbean Central Bank.

In 1997 a workshop organized in St. Vincent by CARICOM was used to develop a programme of inter-country co-operation. The emphasis of the programme is on developing simple accounts for small island economies, including limited institutional sector accounts, and tourism accounts within the supply and use table of the SNA. Also, links are being established between accounting and indicator analysis and modelling.

In Colombia support has been given to the implementation of environmental accounting. A future Human Resource Accounts (HRA) programme is also envisaged, based on recently developed household sector accounts. A similar programme in Bolivia emphasizes the integration of SNA and SAM approaches to household sector and socio-economic accounts, and also includes the development of socio-economic indicators for policy analysis.

In Asia an effort has been started in the Philippines with particular emphasis on institutional sector accounts, as an extension of the present supply and use compilation. Two training seminars have been conducted for staff of the Philippines National Statistical Co-ordination Board and staff of other government agencies. It is expected that, through these efforts, Philippines staff in the future will be able to assist in implementing the SNA in other countries in the region. In Korea, a programme in the National Statistical Office has been supported to develop household sector accounts and their extension to social data, i.e. HRAs for integrated socio-economic analysis. The present programme in Korea focuses on education, but can be potentially extended to other areas of socio-economic analysis.

PURCHASING POWER PARITIES (PPP)

By Paul McCarthy, OECD

(For Information)

Question: What are PPPs?

making inter-country comparisons in real terms of GDP and its component expenditures.

Answer: In their simplest form PPPs are price relatives which show the ratio of the prices in national currencies of the same good or service in different countries. A more technical definition of PPPs is that they are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries. The major use of PPPs is as a first step in

Question: How are PPPs calculated?

Answer: The easiest way to see how a PPP is calculated is to consider a good which is identical in two countries. A simple example would be a litter of Coca Cola. If it costs 15.00 francs in France and \$2.00 in America then the PPP for Coca Cola between France and the USA is $15.00/2.00$, or 7.50. This means that for every

dollar spent on a bottle of Coca Cola in the USA, 7.50 francs would have to be spent in France to obtain the same quantity and quality - or, in other words, the same volume - of Coca Cola. PPPs are not only calculated for individual commodities; they are also calculated for various groups of commodities (e.g., refreshments, vegetables).

Question: What is the relationship between PPPs and the national accounts?

Answer: An important use of national accounts is to make international comparisons of the size of different economies. Calculating PPPs is the first step in the process of converting the levels of GDP and its major aggregates, expressed in national currencies, into a common currency to enable these comparisons to be made. While there is some interest in PPPs as measures of price levels, their most important use is as an intermediate step in calculating levels of GDP (or of GDP per capita) and its major components in a common currency.

Question: How are PPPs calculated for GDP?

Answer: The calculation is undertaken in three stages: first, at the commodity level, where price relatives are calculated for individual goods and services; then, at the commodity group level, where the price relatives calculated for the commodities in the group are averaged to obtain unweighted PPPs for the group; and finally, at the broader aggregation levels right up to GDP, where the PPPs for the commodity groups covered by the aggregate are weighted and averaged to obtain PPPs for the aggregate. The weights used to aggregate the PPPs in this last stage are the expenditures on the commodity groups.

Question: What are the drawbacks to using exchange rates to convert GDP to a common currency for international comparison purposes?

Answer: There are two major disadvantages. First, exchange rates vary from day to day and sometimes change abruptly - perhaps because of speculation against a currency or because of changes in interest rates.

If GDP is converted into US dollars using exchange rates, the size of a country's economy will also appear to vary from day to day and undergo abrupt shifts for reasons that have nothing to do with the actual levels of economic activity in that country. This volatility can be overcome to some extent by using averaging devices, such as the Atlas method employed by the World Bank, although the results can be distorted if exchange rates change rapidly. A second disadvantage is that exchange rates do not simply reflect the relative prices of goods and services produced in a country - they are affected by the relative prices of tradable goods and by factors such as interest rates, financial flows etc. So the use of exchange rates to convert a service such as a haircut may give inappropriate answers and the PPP approach is to be preferred conceptually. When the GDP of different countries is converted to dollars using PPPs, they are all being valued at a common set of prices. As with a time series of GDP at constant prices, it then becomes possible to compare the underlying volumes.

Question: Are PPPs a substitute for exchange rates in making international comparisons?

Answer: It would be a mistake to think of PPPs as a substitute for exchange rates in making international comparisons. In fact, they are complementary because PPP based comparisons are useful in specific situations, such as that described above, while exchange rate based comparisons are more appropriate in others. For example, if an analyst wanted to work out how much could be imported with the proceeds from a particular level of exports then it would be necessary to use exchange rates rather than PPPs.

Question: What does it mean if a PPP differs from the corresponding exchange rate?

Answer: The simple example above of the price of a litter of Coca Cola in France and the USA can show the implication of any such divergence. For example, if the PPP for GDP turned out to be 7.50 francs to the dollar and the actual exchange rate was 6.00 francs to the dollar, an American changing dollars for francs at this exchange rate would find the level of prices in France higher than at home.

CAN REINVESTED EARNINGS ON DIRECT FOREIGN INVESTMENT (D.43) BE NEGATIVE?

By Christian Ravets, EUROSTAT

(For Information)

The conclusion in the EU Working Group was that the recording of negative reinvested earnings *does* have a real economic meaning. Namely if resident enterprises that are direct investment enterprises owned by non-residents make a loss, a negative flow D.43 correctly reduces national income of the country where the parent company is located and increases the national income of the country of production. The latter corresponds to all primary incomes received by resident institutional units. Analogously, losses made in the rest of the world by non-resident enterprises owned by resident units correspond to a reduction in their national income.

Another explanation for the occurrence of negative reinvested earnings is that dividends are to be recorded as of the moment they are declared payable (1993 SNA paragraph 3.99). A significant difference between a given year's profits and the dividends paid during that year might be observed, since the latter are linked to the enterprise's earlier results. When actual distribution, in the form of dividends (or withdrawals of income from quasi-corporations), is higher than the operating surplus of a direct foreign investment enterprise, the flow D.43 becomes negative. Of course, if reinvested earnings are persistently negative for entire industries, this could be a result of errors in the way they are measured.

MEXICO PUBLISHES INSTITUTIONAL SECTOR ACCOUNTS

By Antonio Puig Escudero, National Institute of Statistics, Geography and Informatics, Mexico

(For Information)

By the end of 1998, the National Institute of Statistics, Geography and Informatics (INEGI) concluded the preparation of Institutional Sector Accounts of Mexico for the period 1993-1997, to be published annually. The recommendations of the SNA 1993 were followed in compiling these accounts. The basic information used for integrating the accounts came from various sources (inter alia, tax and company registries, public finance and balance of payments statistics, sector-based surveys and household surveys, economic and agricultural censuses).

producing households; **non-profit institutions serving households** and the rest of the world. Regarding the "size" of these sectors it can be observed that non-financial corporations generate 52.4% of the total Mexican GDP; financial corporations 4.7%; general government 9.3%; households 33.1%; and non-profit institutions serving households 0.5%.

The following institutional sectors are defined for the Mexican economy: **non-financial corporations** within which private and public capital corporations are distinguished; **financial corporations**, both private and public capital corporations including banks, insurance companies, retirement funds, and other financial intermediaries (securities firms, factoring companies, financial leasing companies, etc.); **general government** comprised of central and local government, and social security institutions; **household** which distinguishes

The complete sequence of accounts up to the financial account was compiled for each of the above-mentioned institutional sectors. It is important to note that Institutional Sector Accounts in Mexico incorporate matrices of flow of funds. The entire System of Mexican National Accounts comprises annual accounts, quarterly accounts, some monthly accounts, national and state accounts, economic sector accounts and institutional sector accounts. It also includes a set of satellite accounts, such as for example accounts for the Maquilladora exporting industry, for the Tourism Sector and for the environment. [For further information about the National Account System of Mexico send your e-mail to apuig@cnes.inegi.gob.mx].

IMPLEMENTATION OF THE SNA/ESA IN ROMANIA

By Clementina Ivan Ungureanu and Adriana Ciucea, National Commission for Statistics, Romania (For Information)

Romanian statisticians began the implementation of the System of National Accounts (SNA) in 1989. Before 1989, macro-economic aggregates were compiled according to the Material Product System (MPS). First estimates according to the SNA were obtained by converting the MPS estimates into 'SNA-type estimates' for the period 1989-1990. The starting point for the conversion was the Net Material Product created in the material sphere and calculated according to the MPS. Since 1991 the estimates have been compiled in accordance with the ESA 1979. In 1991, macro-economic indicators were also converted into SNA-type estimates backward to 1980. Three stages of implementation of the SNA/ESA are identified in Romania. During the first stage, 1989-90, sector accounts at current prices and input-output tables at current and constant prices were compiled. The second stage, 1991-92, is characterised by the start of the implementation of the SNA/ESA recommendations; improvements to data collection (enterprise accounting reports and classifications) were also introduced. The third stage began in 1993. The period was characterised by very high rates of inflation, the start of privatisation, introduction of value added tax and substantial changes in the business accounting system; new statistical, financial, accounting and administrative sources of information became available. All these changes had to be reflected in the accounts.

The Romanian annual national accounts cover input-output tables in current and constant prices and sector accounts. Provisional annual GDP estimates are available 2 months after the year; and final estimates within 2 years after the end of the reference year. Sector accounts and input-output tables at current and constant prices (broken down by 105 industries) have been published for 1989-95. Since 1993 financial accounts have been compiled and published by the National Bank of Romania in co-operation with the NCS. Quarterly national accounts have been compiled, on an experimental basis, since 1994. The publication of the quarterly estimates began in 1998. Regional accounts for 1993 and 1994 are also compiled using a 'top-down' approach.

Future work comprises improvement of the coverage and the quality of the estimates. A major task is the implementation of the 1993 SNA/ESA 1995. The Romanian national accounts already include some aspects of the new system, such as basic price evaluation of output and value-added, the use of chain indices in calculating the constant price estimates and certain elements of the gross fixed capital formation according to the 1993 SNA. The full implementation of the 1993 SNA/ESA 1995 is planned for the 1998 estimates. A revision of the accounts back to 1990 is also planned.

AFRISTAT'S PROGRAMME FOR THE IMPLEMENTATION OF THE 1993 SNA

By Hubert Gbossa, Afristat, Mali (For Information)

AFRISTAT is an international organization, which comprises 16 member states from sub-Saharan Africa (including Comoros). The purpose of AFRISTAT is to further the statistical development of its member states. In the area of national accounting the objective is to develop and implement harmonized methods for the compilation of the accounts within a common conceptual framework based on the 1993 SNA. Harmonized methods were defined by a group of experts from the 16 countries during a series of workshops, which were organized by AFRISTAT. The common conceptual framework (scope of the accounts, economic

classifications etc.) was also discussed during these meetings. A handbook, which describes all the methods which have been elaborated, is being prepared. Furthermore, training workshops on the 1993 SNA and the harmonized methods are being organized.

The ERETES software, which is a tool to compile national accounts, will support the practical implementation (see also newsletter No. 5). The accounts of Central African Republic, Cameroon, Cote d'Ivoire, and Chad are already based on the 1993 SNA. In Mali the implementation efforts are well underway. For

the members of the West African Economic and Monetary Union, programmes will soon be launched with financial support from the European Union. The implementation programme for the remaining countries has been formulated and at present efforts are being undertaken to secure the necessary funding

This approach will take several years, but it is expected that the member countries of AFRISTAT will all have reached levels 3 or 4 of the milestone definition elaborated by the ISWGNA by the year 2005, whilst at the same time satisfying the conditions laid out in the IMF General Data Dissemination System.

FORMATION OF AN INTERSECRETARIAT WORKING GROUP ON PRICE STATISTICS

By Kimberly Zieschang, IMF

(For Information)

A new Intersecretariat Working Group on Price Statistics (IWGPS) was formed in late September 1998 by the Statistical Office of the European Communities (EUROSTAT), the International Labor Office (ILO), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the UN Economic Commission for Europe (ECE), and the World Bank. The mission of the IWGPS is to develop manuals on international best practice in compiling statistics for major price indices. The first project that has been undertaken is a new manual on the CPI, updating the ILO manual published in 1989 (Consumer Price Indices; An ILO Manual).

The TEG-CPI will meet again on the occasion of the next Ottawa Group meeting in Reykjavik, Iceland during 25-27 August 1999, and papers on topics to be covered in the draft outline will be presented at the ECE/ILO meetings on the Consumer Price Index in Geneva, Switzerland during 3-5 November 1999. A technical expert group on the Producer Price Index (TEG-PPI) will be formed under the coordination of the IMF and will organize its work in step with that of the TEG-CPI to ensure that the manuals have consistent organization and use consistent concepts and terminology. The last international manual on producer prices was published by the UN in 1979 (Manual on Producers' Price Indices for Industrial Goods, Statistical Papers Series M, No. 66). An important objective in the design of the manuals is to coordinate their recommended concepts and methodology with international standards for compilation of economic statistics, including the 1993 System of National Accounts.

A technical expert group on the CPI (TEG-CPI) was formed under the coordination of the ECE in February 1999 and is in the process of finalizing the chapter outline for the manual.

ACCRUAL ACCOUNTING OF INTEREST: THREE CONCEPTS

By Cor Gorter, IMF

(For information)

SNA News and Notes Issue 5 reported that an Expert Group on Monetary and Financial Statistics that convened at IMF headquarters in November 1996 suggested clarifying the 1993 SNA treatment of interest accruals on tradable debt securities. What is the issue? Many people read the 1993 SNA as saying that the overall interest accrued on a tradable debt security is equal to the difference between (i) the amount of money the creditor provides to the debtor at inception, and (ii) all payments the debtor promises to make to the creditor. In other words, the agreement between the original parties defines the amount of interest payable. This implies that, during the full life of a fixed-rate debt security, the accrual of interest reflects the

market conditions as of the time the security was created.

This concept of interest causes measurement problems when a tradable security is sold, because the new owner may not know what the originally agreed interest was. That will occur especially when the SNA interest is not fully mirrored by coupon payments (think, for instance, of bills or discounted bonds). However, the new owner does know (i) the price at which the security is bought and (ii) all remaining payments by the debtor and their spread in time. From these data, the new owner can derive an interest, or discount, rate which reflects market conditions at the moment of acquisition (rather than of the security's inception). The fifth edition

of the Balance of Payments Manual recommends recording this 'acquisition' concept of interest in specific cases. There is still a third school of thought. Supporters of this school think that interest accrues according to current market prices at any point in time. In every recording period, interest could then be computed by comparing (i) the average market price of the security during the recording period and (ii) the remaining payments by the debtor. It is impossible to know in advance how much interest a fixed-rate security will carry because,

as Peter Hill eloquently put it in an unpublished 1996 note, "The total return on a security may be fixed at the time it is issued, but not the split between holding gains and interest, (...). Only if there are no price changes, is it all interest."

These three notions of interest lead to important differences in the flow accounts. In choosing the best one, both conceptual and measurement arguments may be important. What is your opinion? Please contact accrual@imf.org to express your views or to request background documents.

ELECTRONIC DISCUSSION GROUP: TREATMENT OF NOMINAL HOLDING GAINS AND INTEREST ON FINANCIAL ASSETS

By Robin Lynch, World Bank

(For Information)

The treatment of nominal holding gains and interest on financial assets under conditions of high inflation is under current debate. Major talking points are whether negative real interest should be shown in the primary income account when adjusting interest for inflation, and whether nominal holding gains on loans in national currency can be anything but zero. The ISWGNA has been asked to consider whether the SNA 93 should be revised, in the light of the debate. In order to investigate the issues further, the ISWGNA has asked the World Bank to set

up an electronic discussion group. If you are interested in finding out more, and participating in the discussion, please contact Robin Lynch at RLynch@WorldBank.org for information on how to join the group. You can also find out by accessing the World Bank data web-site at www.WorldBank.org/data/working/iswgna_background.html. Relevant reading material is Annex B to Chapter XIX of the 1993 SNA, and the OECD Manual on Inflation Accounting. Further existing relevant material will be made available through the discussion group and web-site.

ELECTRONIC DISCUSSION GROUP: COST OF TRANSFERRING OWNERSHIP OF ASSETS

By Paul McCarthy, OECD

(For Information)

A note was included in the last issue of SNA News and Notes briefly describing a Singapore Department of Statistics paper recommending a change in the treatment of the costs of transferring ownership of assets. The ISWGNA has now set up an internet page to obtain feedback on this issue.

The page is on the OECD national accounts web site. It can be accessed at www.oecd.org/std/na/home.htm by clicking on the button "Papers under discussion". You can have your comments on this issue put on to the internet discussion page by e-mailing them to the contact address shown on that page.

SNA NEWS AND NOTES ON THE WORLD WIDE WEB

By Károly Kovács, UNSD

(For Information)

The quickest way to publish information today is via the internet. Since its inception the SNA News and Notes has been made available both in print and via the internet. Please find here listed the web addresses where you can find access to the various language editions.

Division homepage in four languages: www.un.org/Depts/unsd/sna/sna.htm. The Spanish version is originally placed on the Economic Commission for Latin America and the Caribbean homepage: www.eclac.cl/espanol/estadisticas/scn93_nn.htm and the Russian version placed on the homepage of the International Monetary Fund: www.imf.org/external/pubs/ft/sna/default.htm

All the issues of the newsletter published so far can be found on the United Nations Statistics

Links have been established between these websites. Try to reach one of the above listed homepages and be encouraged to use the search

feature that makes the electronic format even more convenient and efficient to use.

ACKNOWLEDGEMENT OF MR. PIERRE MULLER (INSEE) (For Information)

The following text acknowledging the contribution of Mr. Pierre Muller is included in the French language edition of the 1993 SNA, but was unfortunately omitted in other language editions:

"Throughout the period 1991 to 1993, the various authors benefited from the thorough and extensive written comments on all the draft chapters made by Messrs. Andre Vanoli and Pierre Muller (INSEE France) working in close collaboration with each other."

MEETINGS, SEMINARS (For Information)

7 June - 16 July 1999 Training course in the 1993 SNA organized by IMF, Washington

July - August 1999 World Bank seminar on PPPs

20 September 1999 A workshop on accounting for depletion in the national accounts, organized by OECD, Paris

21 - 24 September 1999 Annual Meeting of OECD national accountants, Paris

27 September - 1 October 1999 A UNSD and UNESCAP Workshop on International Economic and Social Classifications in collaboration with the Australian Bureau of Statistics is to be held in Canberra, Australia. The workshop is to focus on the implementation and use of activity and product classifications (with special attention to ISIC and CPC in the Asia and Pacific region)

11-15 October 1999 UNECA workshop on the corporate sector for African French speaking countries, Addis Ababa, Ethiopia

8-12 November 1999 Workshop on the Implementation of the 1993 SNA with emphasis on Regional Accounts for Latin America, organized by UNSD, UNECLAC, INEGI, Aguascalientes, Mexico

8-10 November, 1999 Meeting of the Camberra Group on Capital Stock Estimates, organized by BEA/BLS in Washington D.C.

31 January-11 February 2000, Training course in the 1993 SNA organized by IMF in Abidjany, Cote d'Ivoire.

Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank)

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