CM.4 Use of Net Measures in the Presentation of the National Accounts:

Outcome of Global Consultation

CM.4 Use of Net Measures in the Presentation of the National Accounts: Outcome of Global Consultation[1]

The global consultation[2] sought to ascertain the views of compilers on the use of net measures in the presentation of the national accounts proposed by the Communication Task Team (CMTT).

The consultation showed that majority of respondents agreed with the need to introduce net value added, (including Domestic Product), income and saving as complementary information in the compilation items of their national accounts to gross product, income and saving.

Most of the respondents noted that data limitations is the biggest challenge to measure stocks of fixed capital and the flow of consumption of fixed capital. Most respondents agree that a well-functioning international 'capital measurement (internet-based) information hub' will be a helpful way to share information to improve the methodology on the developments of prices for new assets, age-efficiency and age-price profiles and service lives. The exchange of information, as supported by the hub will contribute to better quality of their estimates of statistics on stocks of fixed capital and flows of consumption of fixed capital.

Most respondents agreed that the 2025 SNA should emphasise using geometric depreciation as the default option (in case information on age-price/age-efficiency profiles is not available) and should elaborate more specifically on the necessity to compile net measures for value added, income and saving. There was a marginal approval of using the volume growth of net domestic product (NDP) as measure of economic growth owing to the practical challenges. There was overall acceptance of using NDP as the denominator in critical ratio indicators such as government debt and government net lending/borrowing related to GDP/NDP but with lower number of responses. Regarding how would key users (media, economic analysts, government representatives) reflect on the need, usefulness and feasibility of moving towards applying net (instead of gross) value added (including Domestic Product), income and saving, the majority were not sure or do not know, reflecting a clear need to do more work for collecting and evaluating users' views. The respondents also provided some valuable suggestions for the use of net measures in the presentation of the national accounts that should be reflected in the final guidance note.

In this meeting, the outcome of global consultation is presented so that the IMF's Committee on Balance of Payments Statistics (the Committee) and the Advisory Expert Group on National Accounts (AEG) can take a final decision on the proposed changes to the Guidance Note (GN).

SUMMARY OF GLOBAL CONSULTATION

1.   **The consultation received a total of fifty-six (56) responses.** Completely anonymous contributions are excluded.

2.   **A significant majority of the respondents indicated they used the perpetual inventory method (PIM) to measure stocks of fixed capital and the flow of consumption of fixed capital in**

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[1] Prepared by Lisbeth Rivas (IMF), Mr James Tebrake (IMF) and Mr. Sanjiv Mahajan (United Kingdom: Chair, CMTT).

[2] The joint global consultation on the GN CM.4 "Use of Net Measures in the Presentation of the National Accounts: Outcome of Global Consultation" took place during January 18, 2023–February 17, 2023.

their country (see Figure 1). However, some respondents noted they also used balance-sheet type methods. Respondents also indicated that there are variations in assumptions regarding asset life length and rate of depreciation and that intangible assets were a specific challenge.

3.   **Most countries indicated that they have a high or medium quality perpetual inventory method that is used in generating their capital-related statistics** (on fixed capital stocks and consumption of fixed capital) (see Figure 2). These responses were based on self-assessments.

4.   **The consultation also sought feedback on what was the biggest challenge to measure stocks of fixed capital and the flow of consumption of fixed capital.** Data limitations is the biggest challenge mainly related to asset service lives, depreciation profiles and asset prices (see Figure 3).

5.   **Most respondents agree that a well-functioning international 'capital measurement (internet-based) information hub' will be a helpful way to share information** to improve the methodology on the developments of prices for new assets, age-efficiency and age-price profiles and service lives. The exchange of information, as supported by the hub, will contribute to better quality of their estimates of statistics on stocks of fixed capital and flows of consumption of fixed capital (see Figures 4 and 5). Respondents noted that this was one area that sooner the hub was ready the better, not only to post data on consumption of fixed capita, but also on depletion of natural resources.

6.   **Most of the respondents agreed that the 2025 SNA should emphasise using geometric depreciation as the default option (in case information on age-price/age-efficiency profiles is not available)** and should elaborate more specifically on the necessity to compile net measures for value added, income and saving (see Figure 6). Respondents noted that the geometric depreciation is better conceptually and easier to implement and makes productivity calculations easier. They also noted that EU countries follow the recommended use of a convex (cohort) depreciation function and the 2025 SNA should reflect this aspect. They mentioned that there should be country discretion to choose.

7.   **An overwhelming majority of respondents agreed that the 2025 SNA should elaborate more specifically on the necessity to compile net measures for value added, income and saving** as explained in the Guidance Note (see Figure 7). The concept of net national income and net domestic product is important. Some respondents indicated there was the need for greater harmonisation of consumption of fixed capital and depletion of natural resources; the net measures would improve efficiency and productivity type analyses; and more work was needed to develop methods and estimates of depletion of natural resources as well as explanations.

8.   **There was overwhelming support by respondents to show the gross to net steps explicitly**; they agreed that countries should explicitly show the two elements, consumption of fixed capital and depletion of natural resources (see Figure 8). Respondents commented that this was crucial for understanding and usefulness; that the promotion of transparency would help to increase the use; that this was theoretically correct but had practical challenges because of data availability issues. Given the assumptions, respondents noted that users should be informed explicitly on the size and variation of depletion and what was published was up to the countries themselves.

9.   **There was overwhelming support by respondents to introduce, in the compilation of their national accounts, net value added (including Domestic Product), income and saving** as complementary information items to gross product, income and saving (see Figure 9). Respondents indicated that net measures should be shown alongside the gross measures with explanation as some

countries do and the challenge of creating quarterly estimates from the annual estimates. Some respondents noted that there were lots of practical considerations and difficulties to address.

10.   **Respondents marginally approved to use the volume growth of net domestic product (NDP) as the measure of economic growth** (see Figure 10A). Respondents commented that volume NDP was conceptually correct but had lots of practical challenges such as deflation issues and impact of assumptions; volume GDP and volume NDP should be published together; a full transition to NDP would be tough for users; GDP should not be replaced; net measures would need education to users; compilers should work on comparability and a gradual approach. Other respondents noted that gross measures should be replaced by net measures for the next SNA and that the CMTT should not push for volume NDP now but should do so for income and saving on a net basis.

11.   **There was overall acceptance by respondents to use NDP as the denominator in critical ratio indicators such as government debt and government net lending/borrowing related to GDP/NDP** (see Figure 10B). Some respondents suggested waiting until net measures are more accepted and indicated that some existing legislation is not likely to change. Other respondents mentioned comparability issues, the need for harmonisation and that having net and gross approaches and explanations would help.

12.   **Responses reflected a clear need to do more work for collecting and evaluating users' views** since most respondents indicated that they were not sure or did not know how key users (media, economic analysts, government representatives) would reflect on the need, usefulness and feasibility of moving towards applying net (instead of gross) value added (including Domestic Product), income and saving (see Figure 10C).

Way forward

13.   The feedback from the Global Consultation has broadly endorsed the Guidance Note and its recommendations. On this basis, are the Members content to consider the Guidance Note as complete?

Annex. Graphs and Charts

Figure 1. What methods are used in your country to measure stocks of fixed capital and the flow of consumption of fixed capital?
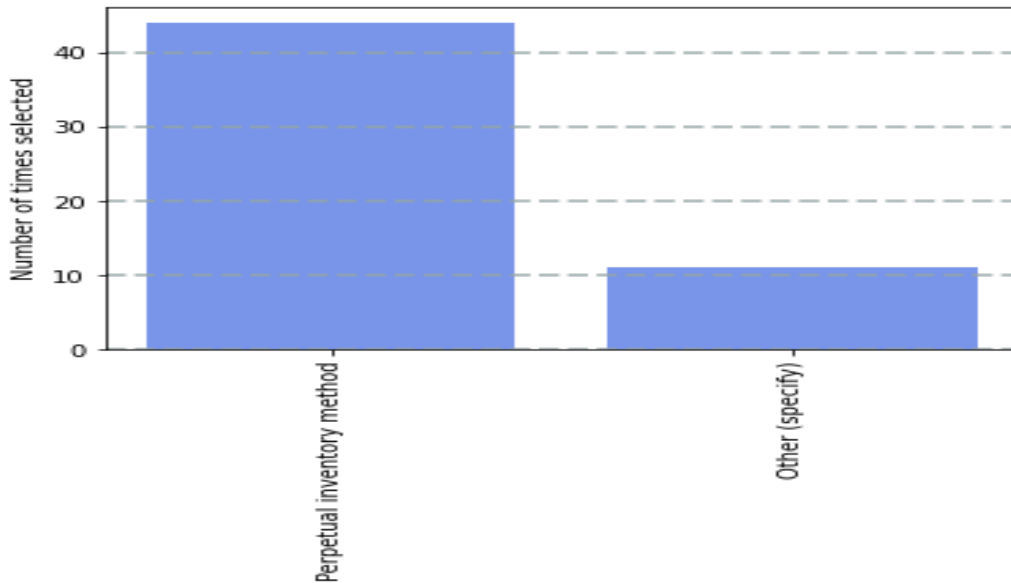

Figure 2. How would you rate the quality of the perpetual inventory method used in your country and the capital-related statistics (on fixed capital stocks and consumption of fixed capital) it is generating?
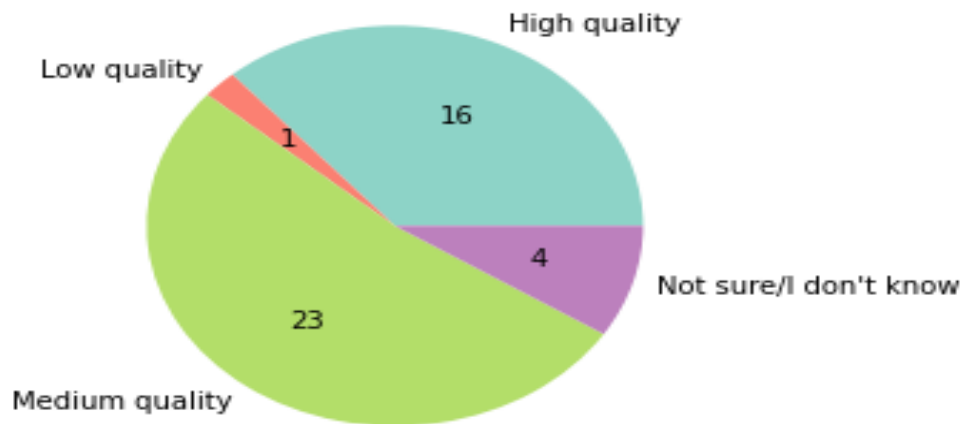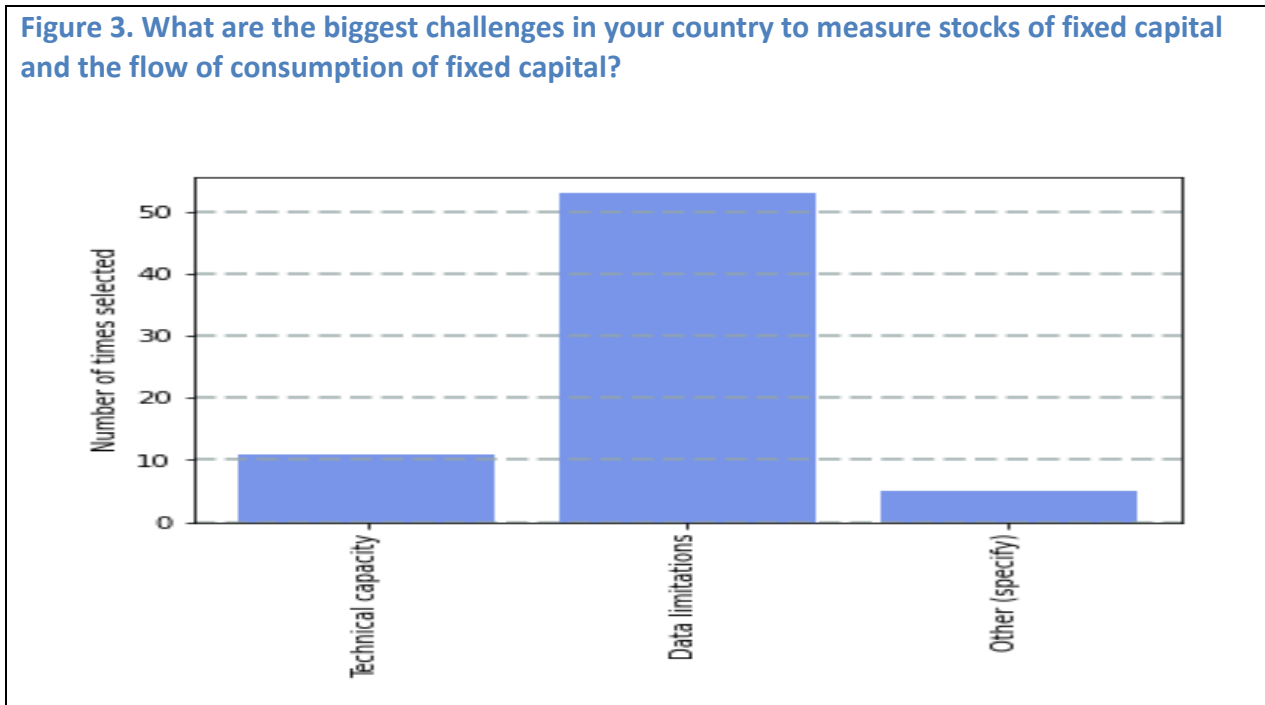
Figure 3. What are the biggest challenges in your country to measure stocks of fixed capital and the flow of consumption of fixed capital?

Figure 4. Do you agree that a well-functioning international 'capital measurement (internet-based) information hub' will be a helpful way to share information to improve the methodology on the developments of prices for new assets, age-efficiency and age-price profiles, and service lives?
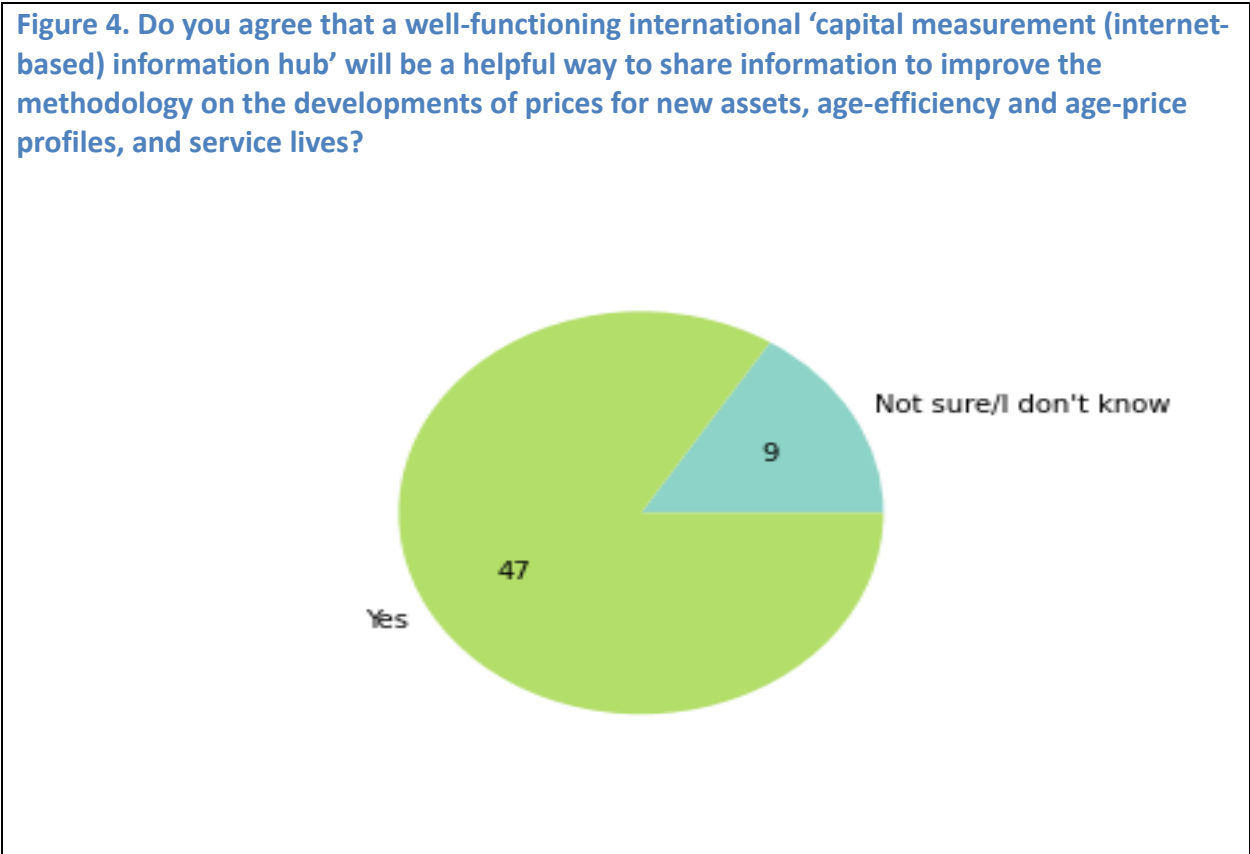
Figure 5. Do you expect that the exchange of information, as supported by the hub, will con flov

Not sure/I don't know

17

38

Yes
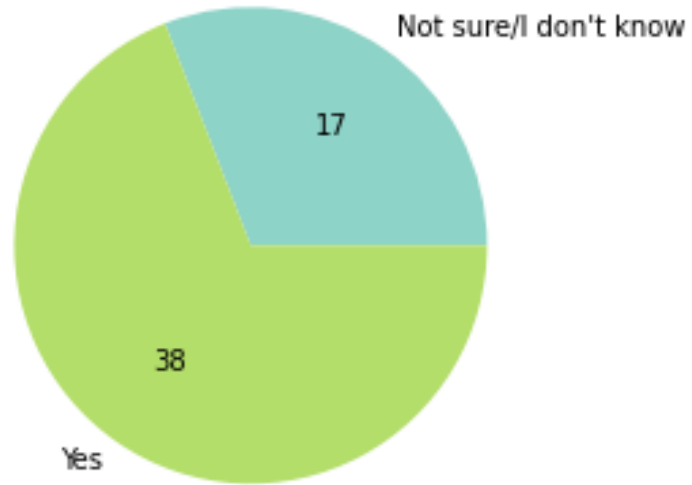
Figure 6. Do you agree the 2025 SNA should emphasize using geometric depreciation as the default option (in case information on age-price/age-efficiency profiles is not available)?
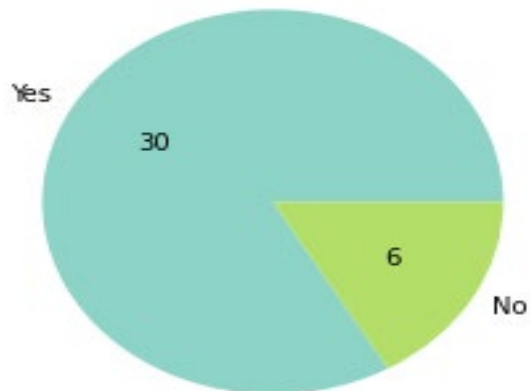

Yes

30

6

No

Figure 7. Do you agree that the 2025 SNA should elaborate more specifically on the necessity to compile net measures for value added, income and saving as explained in the Guidance Note?
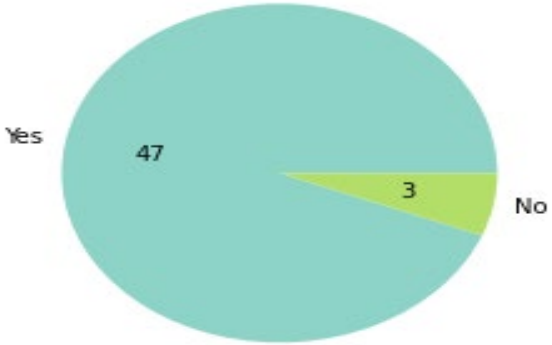
Yes
47
3
No

Figure 8. Do you agree that when it comes to the publication of Gross-Net adjustments in the future, countries should explicitly show the two elements, consumption of fixed capital and depletion of natural resources?
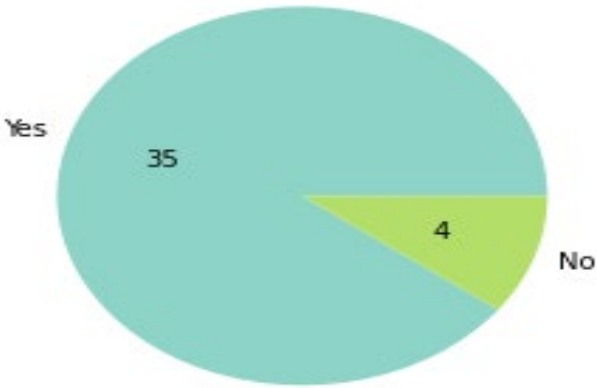
Yes
35
4
No

Figure 9. Do you agree that countries should introduce, in the compilation of their national accounts, net value added (including Domestic Product), income and saving as complementary information items to gross product, income and saving?
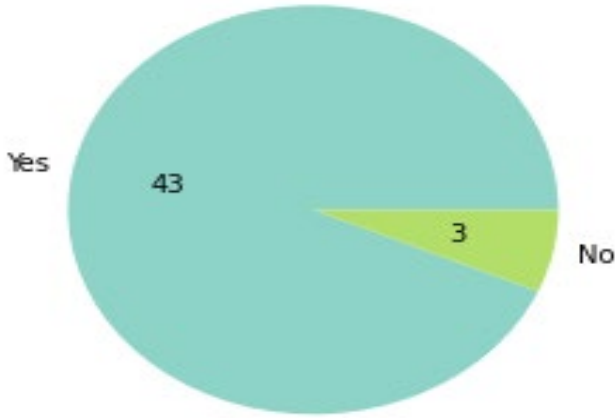

Yes 43
No 3

Figure 10A. Using the volume growth of net domestic product (NDP) as the measure of economic growth?
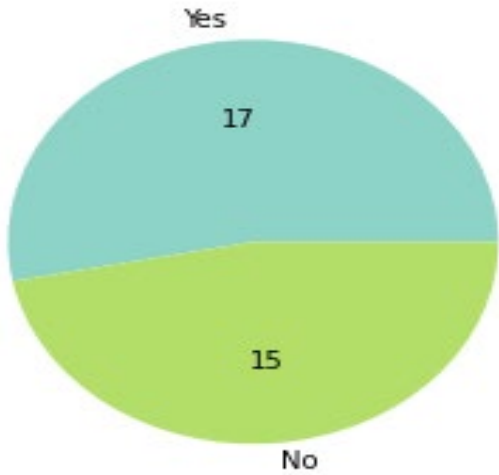

Yes 17
No 15

Figure 10B. Using NDP as the denominator in critical ratio indicators such as government debt and government net lending/borrowing related to GDP/NDP.
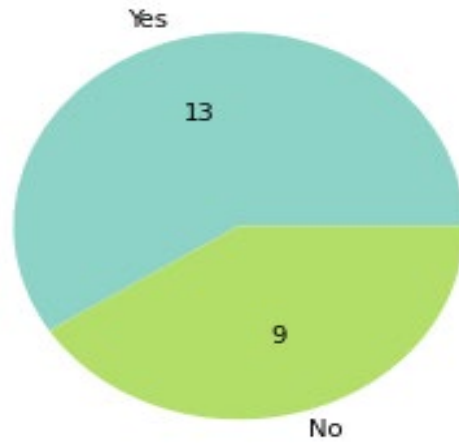
Yes

13

9

No

Figure 10C. How would your key users (media, economic analysts, government representatives) reflect on the need, usefulness and feasibility of moving towards applying net (instead of gross) value added (including Domestic Product), income and saving in their work?

Not sure/I don't know

41

Negative

3

9

Positive