Communication Task Team (CMTT)
CM.4 Gross and Net Measures

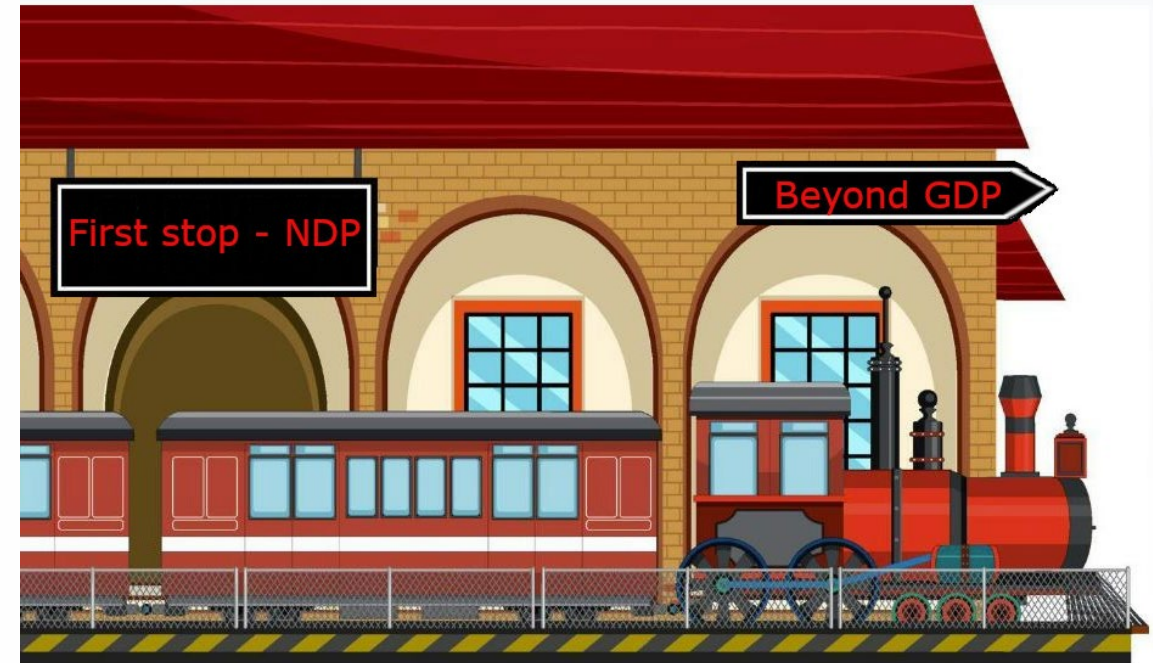## PROGRESS REPORT

AEG MEETING MARCH 2023

Sanjiv Mahajan – Chair of CMTT (UK)

Outline

➤ Background

➤ Recommendations

➤ Outcome of global consultation

CM.4 Gross and Net Measures

➢ The role and prominence of the focus on Net measures has increased significantly through greater user needs and analytical uses as well as policy uses, particularly related to sustainability and the statistical measurement of climate change, its impact and related policies.

➢ The Guidance Note (GN) examines the challenges of improving the steps between Gross measurement and Net measurement to support the need for higher quality and reliable Net estimates and recommends steps for the way forward.

➢ The two main elements of the Gross-Net adjustment proposed in the GN are consumption of fixed capital and depletion of natural resources.

➢ There is a separate GN (CM.2 on Terminology and Branding of the Economic Accounting Statistical Standards) that covers the need to apply clearer and stricter application of terminology regarding the terms Net and Gross – this is also a key ingredient in increasing the focus on Net measures.

This GN CM.4 also complements the net-to-gross issues covered elsewhere, in particular:
- CM.2 Terminology and Branding of the Macroeconomic Accounting Frameworks;
- WS.6 Accounting for the Economic Ownership and Depletion of Natural Resources; and
- WS.8 Accounting for biological resources.

GN Recommendations

(i) For economic soundness, simplicity and making capital measurement accessible to a wider range of countries, the 2025 SNA should recommend **geometric depreciation** as the default option.

(ii) The **stronger positioning of net income in the 2025 SNA** coincides with the need for further compilation guidance and sharing of best practice on capital measurement. The forthcoming **Compilers Hub** offers a good opportunity for peer-to-peer sharing of tools, methods and best practices which should support statistical development and international comparability.

(iii) In the 2025 SNA, **a much higher profile is given to net income and savings** according to the proposals in Section 2 of this GN.

(iv) It is recommended to include a **Chapter in the updated SNA on measuring capital**. In addition to covering the concepts and definitions this chapter should also outline the various measurement methods and make recommendations regarding methods to ensure international consistency.

(v) In the national accounts as published by countries, the **scope of Gross-Net adjustments should be shown explicitly**, i.e., the two elements (P51c, K21).

(vi) The 2025 SNA **should advocate the volume change of NDP as the preferred measure of economic growth**, acknowledging that moving from gross to net product estimations will require a transition period.

Outcome of global consultation

A total of 56 respondents contributed to this consultation. Completely anonymous contributions are excluded.

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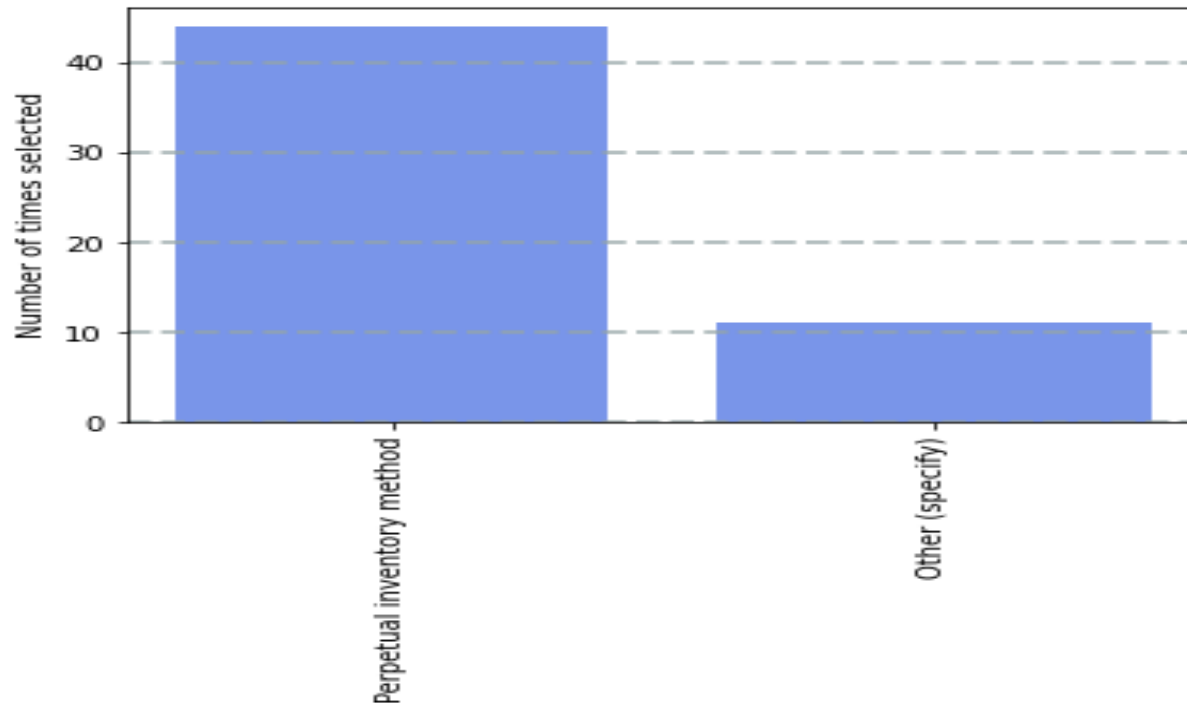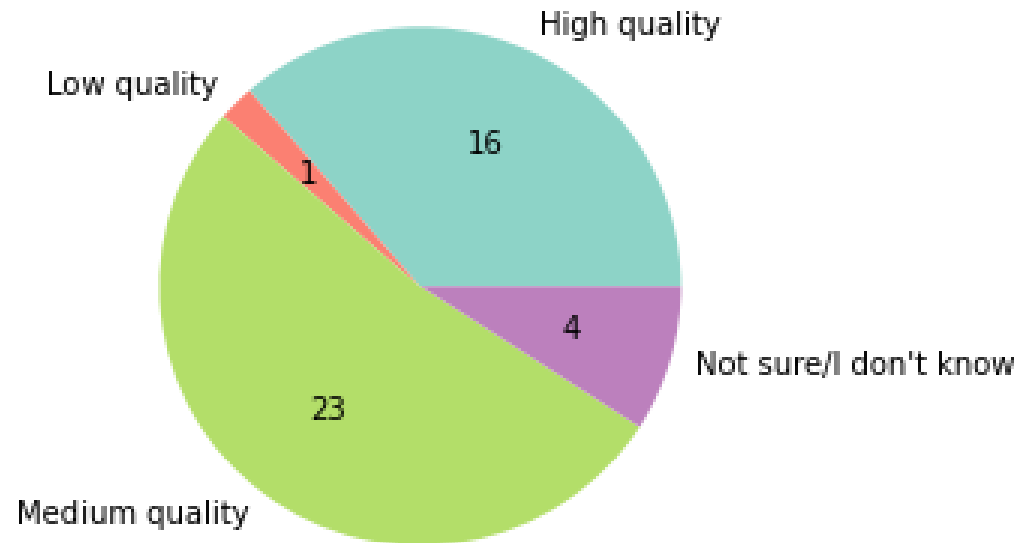

Notes:
- PIM used in the main also balance sheet-type methods.
- Variations in assumptions, life length and rate of depreciation.
- Intangibles a specific challenge.

Outcome of global consultation

Q2. 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?
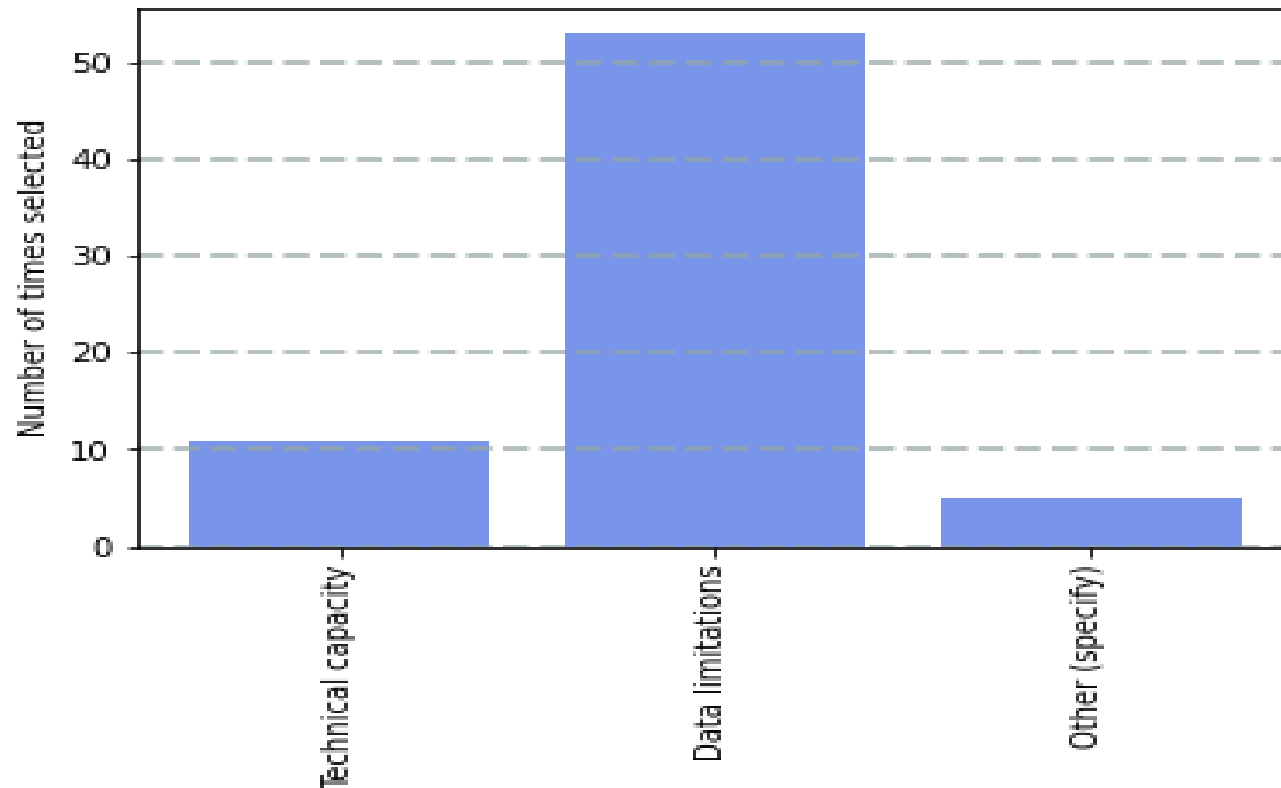

Notes:
- Most countries have a high / medium quality PIM (self-assessment).

Outcome of global consultation

3A. What are the biggest challenges in your country to measure stocks of fixed capital and the flow of consumption of fixed capital?
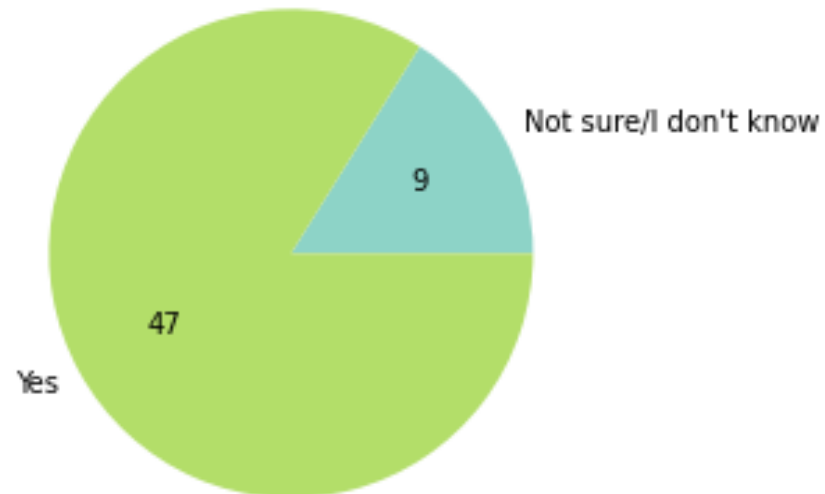

Notes:
- Data limitations is the biggest challenge.
- Lots of assumptions and lack of data availability.
- Service lives and prices.
- Estimating depreciation profiles.
- Need for long time series, e.g., GFCF.
- Tracking write-off's and obsolescence.
- Residential properties and IPPs.
- Differences across institutional sectors.

Outcome of global consultation

Q4. 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?
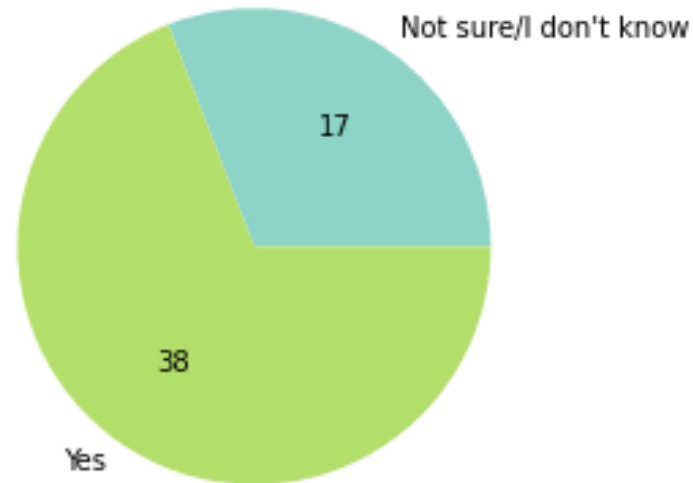
Notes:
- Information Hub would clearly be useful.

Not sure/I don't know

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Yes

Outcome of global consultation

Q5. Do you expect that the exchange of information, as supported by the hub, will contribute to better quality of your estimates of statistics on stocks of fixed capital and flows of consumption of fixed capital?
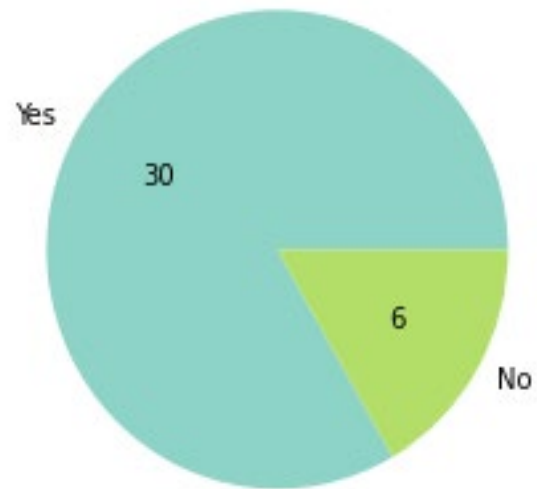

Notes:
- Exchange of information clearly welcomed and would be helpful.
- This is one area the sooner the better, not just CFC but depletion of natural resources.

Outcome of global consultation

Q6A. 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)?
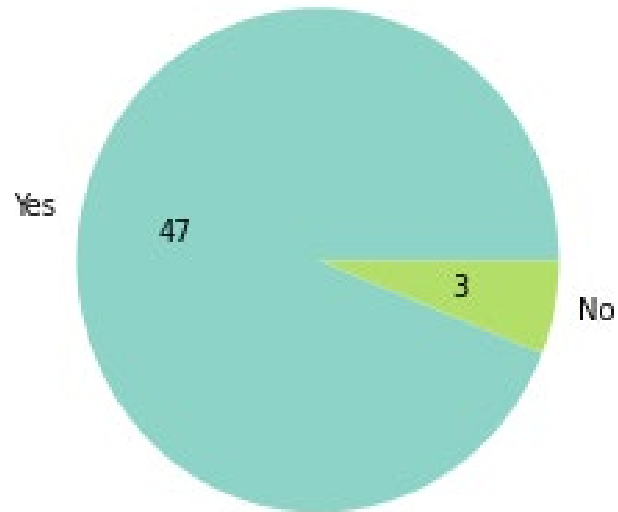

Notes:
- Clear support for the use of geometric depreciation.
- Better conceptually and easier to implement?
- EU countries follow the recommended use of a convex (cohort) depreciation function – maybe 2025 SNA should do so.
- Deviation should be allowed for certain assets.
- Makes productivity calculations easier.
- Country discretion to choose.

Outcome of global consultation

Q7A. 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

Notes:
- Overwhelming support for further elaboration.
- Role of NNI and NDP is important and significant user interest.
- Need for greater harmonisation of CFC and DNR across countries.
- Will improve efficiency and productivity type analyses.
- More work is needed to develop methods and estimates of DNR as well as explanations.

Outcome of global consultation

Q8A. 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?
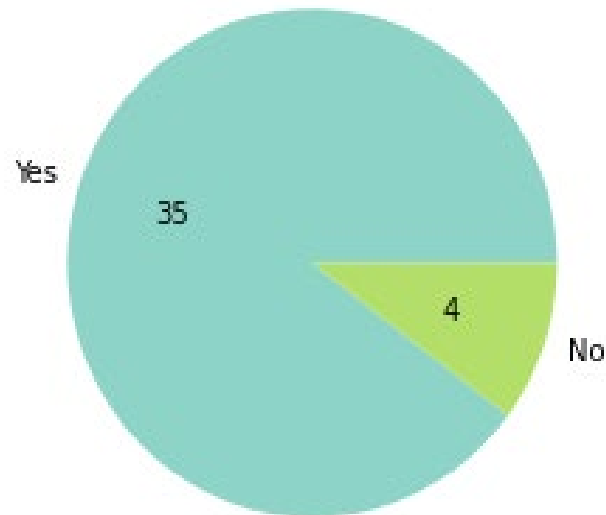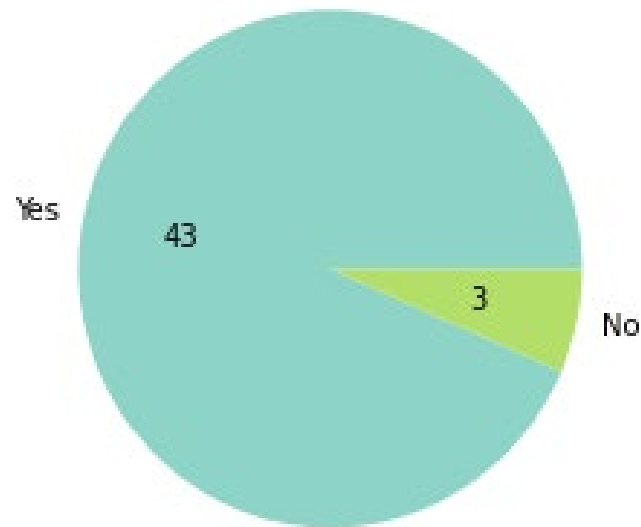

Notes:
- Overwhelming support to show the gross to net steps explicitly.
- Crucial for understanding and usefulness.
- Promotion of transparency will help to increase the use.
- Theoretically correct but with practical challenges.
- Given the assumptions, users should be informed explicitly on the size and variation of depletion.
- Work needed to enhance country comparability, especially estimating DNR
- Data availability issues.
- What is published is up to the countries themselves.

Outcome of global consultation

Q9A. 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?
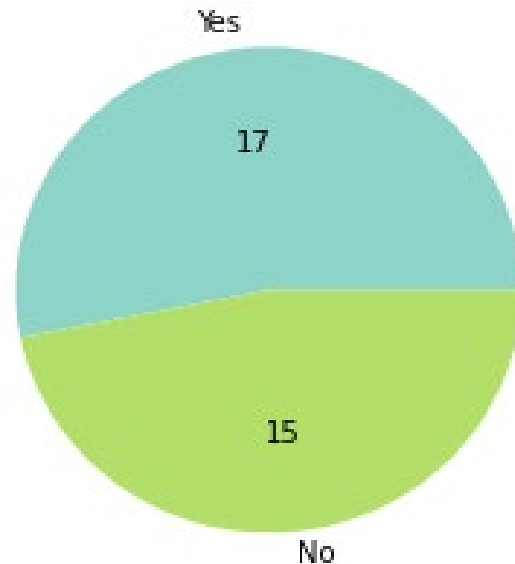

Notes:
- Overwhelming support.
- Show alongside the gross measures.
- Lots of practical considerations and difficulties to address.
- Maybe publish DNR but not in the accounts.
- Creation of quarterly estimates from annual estimates.
- Some countries already publish net measures alongside their gross measures.

Outcome of global consultation

**Q10A. Using the volume growth of net domestic product (NDP) as the measure of economic growth?**

Yes

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No

Notes:
- Marginal approval.
- Conceptually correct but lots of practical challenges.
- Role for GDP and NDP to be published together.
- Full transition to NDP only may be conceptually correct but will be tough for users.
- Not replace GDP.
- Will need education and familiarity of net measures.
- Various deflation issues and impact of assumptions.
- Work on comparability and gradual approach.
- Replace for next SNA.
- Maybe no for GDP now but push for income and saving on a net basis.

Outcome of global consultation

Q10B. Using NDP as the denominator in critical ratio indicators such as government debt and government net lending/borrowing related to GDP/NDP.

Yes

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No
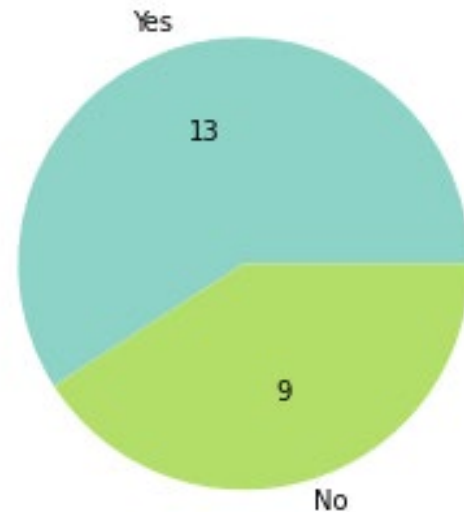
Notes:
- Overall acceptance with lower number of responses.
- Wait until net measures are more accepted.
- For some indicators, the change should be made and for other indicators, no change.
- Some existing legislation is not likely to change.
- Impact of the assumptions.
- Harmonisation and comparability issues.
- Challenge to user familiarity.
- Having both approaches and explanations will help.

Outcome of global consultation

Q10C. 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?
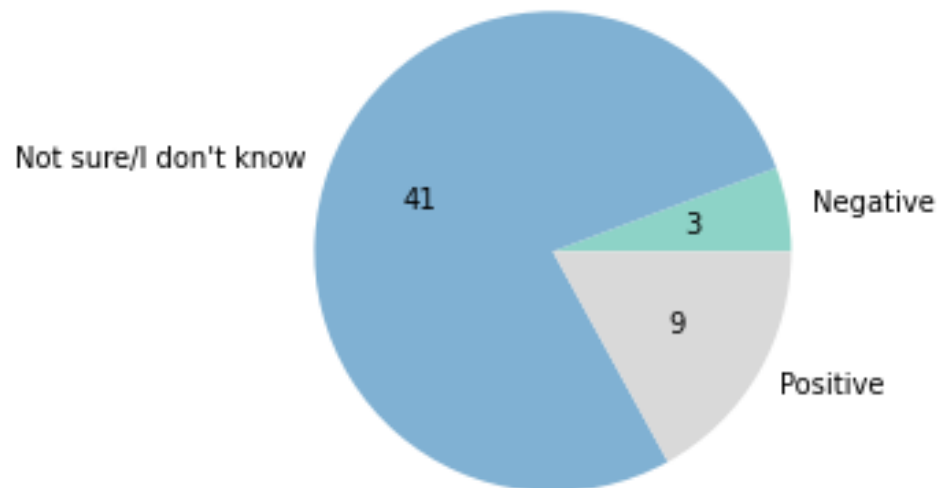
Notes:
- Clearly need to do more work to collect and evaluate users' views.

Outcome of global consultation

Summary

Overall, very supportive and favourable responses:

➢ Widespread use of the PIM approach.

➢ Overwhelming support for raising the profile of net measures (not replace GDP) and transparency in showing CFC and DNR separately.

➢ Conceptual acceptance but more guidance for implementation, especially DNR.

➢ Clear support for the use of geometric depreciation.

➢ Need for more guidance to achieve greater harmonisation and comparability of methods and assumptions as well as welcome more efforts in information sharing (e.g., Hub).

➢ Some hesitancy in how far we go, e.g., changes to ratios due to legislation and volume indicators.

➢ Little feedback on users' views.

Way forward

➢ 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?