



# Treatment of rent

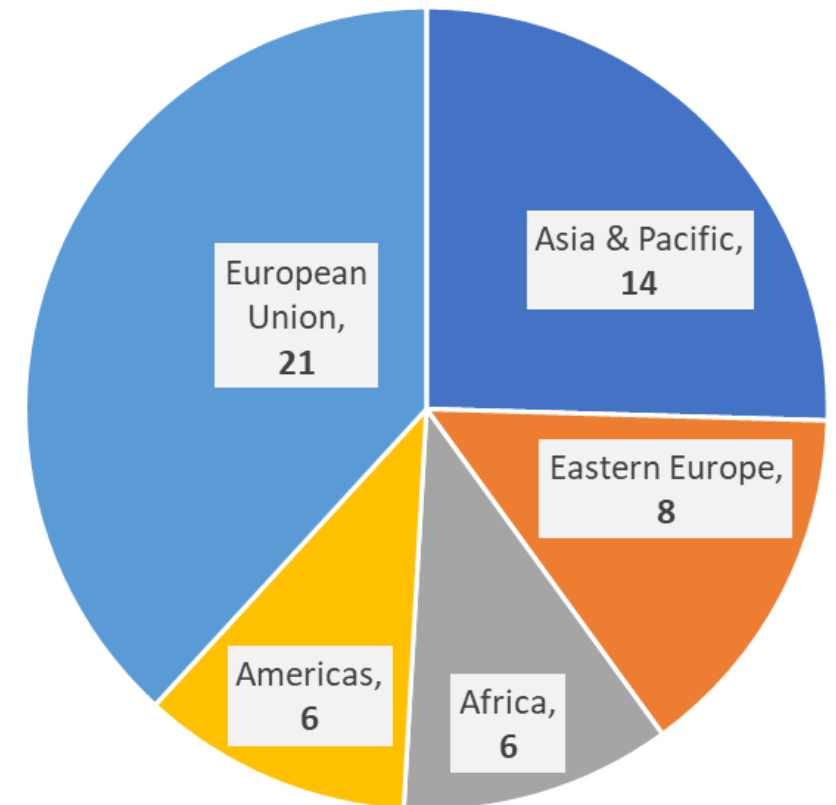
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*23<sup>rd</sup> Meeting of the Advisory Expert Group on National Accounts  
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# Background

- A couple of GNs potentially call for revisiting the treatment of rent in the NA:
  - ✓ DZ.6 Recording of Data in the National Accounts
  - ✓ WS.8 Accounting for biological resources
- Rent Guidance Note discussed at last two AEG meetings
- Three issues identified (A, B, C)
- Global consultation between 5 June and 3 July
- 55 responses received

## Geographical distribution of responses



# Three main issues to consider...

- (A) the **definition of rent**, i.e., which payments and receipts for the leasing of (non-produced) non-financial assets should be considered as rent;
- (B) **where in the accounts** the payments and receipts of rent should be recorded; and
- (C) whether or not payments for rent should be included in the **sum-of-costs approach** for valuing output of specific types of products, for which a market-equivalent price is not available.

Note linkages between these questions...

# (A) Definition of rent

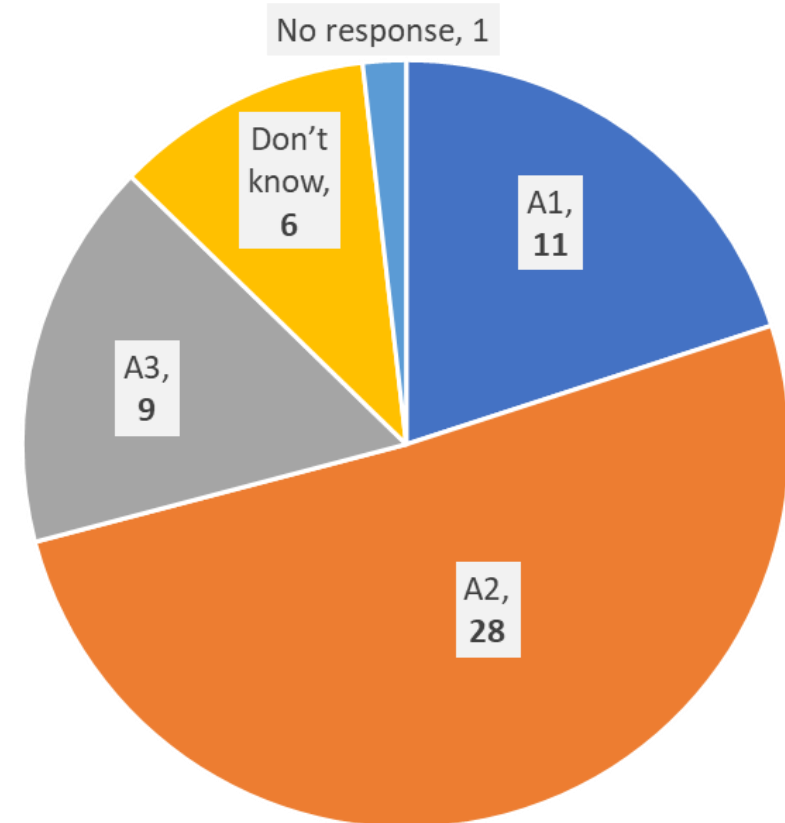
**Option A1:** Broaden the definition of rent to cover all payments/receipts related to the use of **non-financial assets with infinite life span**

**Option A2:** Broaden the definition of rent to cover **all** payments/receipts related to the use of **non-produced non-financial assets** (whatever their life span)

**Option A3:** Broaden the scope of production to also include returns on the use of non-produced non-financial assets

# Issue A – consultation results

- Absolute majority in favour of Option A2  
“all non-produced non-financial assets” (28/55)
- Comments in favour of A2:
  - most pragmatic approach
  - non-produced assets represent factors of production rather than inputs to production
  - doubts on applicability of infinite life span
- But concerns on interaction with depletion



# Issue A – next steps

- Proceed with option A2 in drafting the updated SNA
- Consider interaction with approach on depletion, to ensure consistency of approach

## (B) Location of rent in the accounts

**Option B1:** Keep the current treatment (allocation of primary income)

**Option B2:** Include rent in the generation of income account

**Option B3:** Include rent in the production account

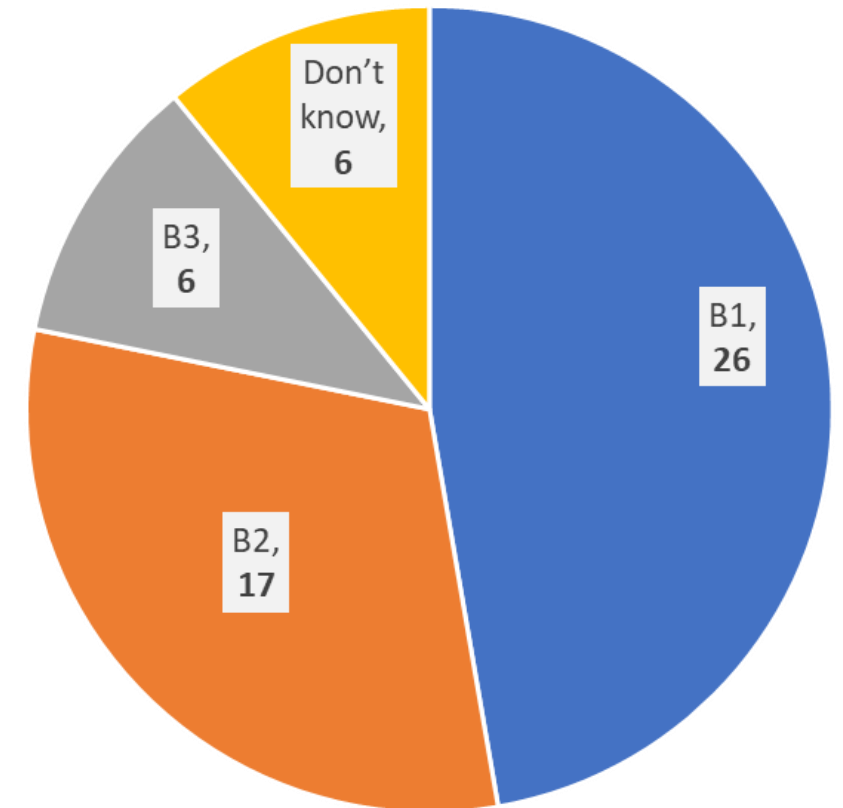
**Option B2 impacts on Operating Surplus**

**Option B3 puts rent with income before the costs to generate that income (and changes GDP)**

*See accounts examples in Annex*

# Issue B – consultation results

- Majority in favour of Option B1 “status quo” (26/55)
- Comments to support B1:
  - ✓ Preserves distinction between rent and rentals
  - ✓ Inconsistent with classical economic theory (odd to put rent equivalent to labour as factor of production)
  - ✓ Recording of cross-border payments difficult under B2 (generation of income account is not applicable to the international accounts)
- Comments to support B2:
  - ✓ Moving rent to generation of income account aligns with the thinking that it is a cost of production
- In any case, consider relation between rent and depletion





# Issue B – next steps

- Option B3 will not be pursued
- Discuss in this AEG meeting to consider pros and cons of options B1 and B2 (notably in interaction with depletion):
  - B1 > retains rent/rentals distinction, consistent with classical theory, less cross-border challenges
  - B2 > treats rent as a cost of production
  - In both cases, consider interaction with depletion

# (C) Include rent in sum of costs?

**Option C1:** Maintain the current treatment, i.e., limit the sum-of-cost approach to only include costs related to the use of produced non-financial assets

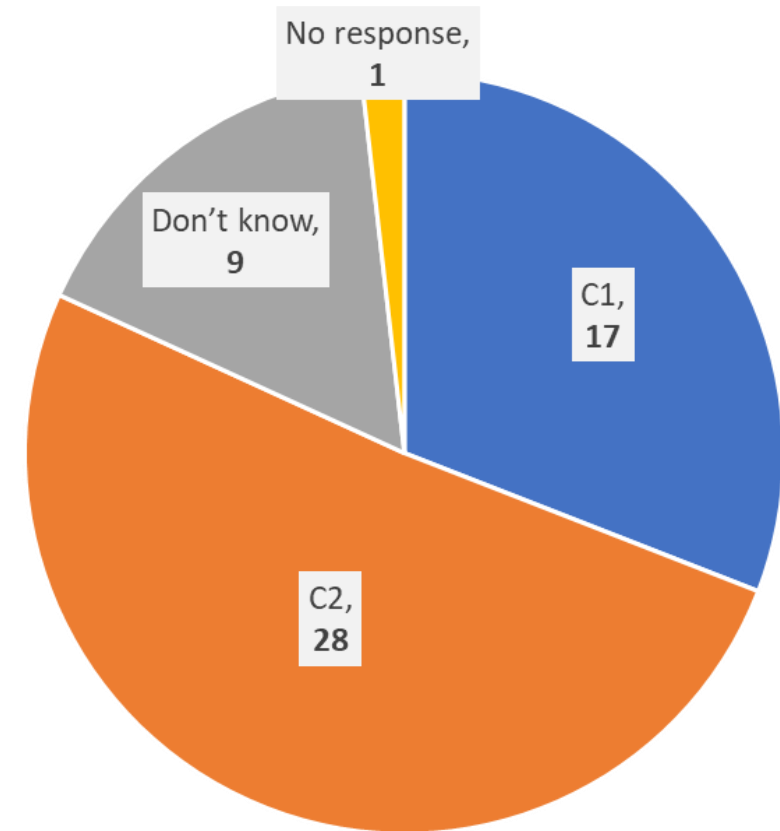
**Option C2:** Broaden the sum-of-cost approach to also include costs related to the use of non-produced non-financial assets

**AEG preferred Option C2 at its last meeting;**

**Also discussed at this meeting by issue note on Action point A.8  
“Consistency in the Application of the Sum of Costs Approach”**

# Issue C – consultation results

- Clear majority in favour of option C2  
“Broaden the sum-of-cost approach” (28/54)
- Comments in favour of C2:
  - ✓ Non-produced non-financial assets are actually an input to production, so it would make sense to include them in the costs
- But...impact on non-market output/GDP?



# Issue C – next steps

- Follow option C2, also in line with global consultation results on Issue note A8

# Overall aspects

- Need to ensure consistency between application of the options, and with treatment of depletion
- Some other technical comments to be addressed in re-drafting of GN
- Recommend as a follow up an investigation of the potential impact on key aggregates?

# Specific questions from global consultation

- Do decisions on CAWLM/CAWLP as non-produced non-financial assets (F.18) and the recording of natural capital as a separate asset class under non-financial assets (WS.12) affect the definition of rent? (*Bank of Japan, UNSD*)
- Split real estates between fixed assets and land, and do the same for the associated renting payments, to be split between rentals and rent? (*Eurostat GFS*)
- In case the definition of rent would be broadened to cover all payments/receipts related to the use of non-produced non-financial assets (whatever their life span), does this imply that payments for the use of nonmigrating biological assets would NOT be recorded as rent as these assets will be entirely defined, according to WS.8, as cultivated and thus as produced? (*CBS Netherlands*)
- If the user and the owner of a non-produced non-financial asset are the one and the same unit, is there a need to include imputed rent for the use of that asset in the sum of costs? (*UNSD*)

# Questions for the AEG

- Do you confirm to change the definition of rent following option A2?
- Should rent be recorded in the allocation of primary income account (option B1) or in the generation of income account (option B2)?
- Do you confirm that rent payments should be considered as a production cost in the 'sum of costs' valuation following option C2?
- Any views on the 4 specific questions in the previous slide?