

SNA News

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Revision of the functional classifications

In chapter 18 the 1993 System of National Accounts outlines four functional classifications of expenditure:

- the classification of the functions of government (COFOG)
- the classification of individual consumption by purpose (COICOP)
- the classification of the purposes of non-profit institutions serving households (COPNI)
- the classification of outlays of producers by purpose (COPP)

All four functional classifications (which are also called classifications of expenditures by pur-

pose) are currently being revised under the lead of OECD and UNSD. The revised formats will be discussed at the next joint OECD/Eurostat/ECE national accounts meeting mid 1997. It is expected that the revision process will be completed in the second half of 1997. It is proposed that both organizations prepare a publication on all functional classifications which will be submitted to the Statistical Commission in 1999.

The following article gives an update on the status of the revision process. The section on COFOG, COICOP and COPNI has been prepared by OECD whereas the section on COPP was contributed by UNSD.

COFOG, COICOP and COPNI

There is a distinct overlap between the three classifications COFOG, COICOP and COPNI because COICOP covers the expenditures of non-profit institutions serving households (NPISHs) and the individual consumption expenditures of government as well as expenditures of households.

The OECD has produced drafts of both COICOP (which also includes COPNI) and COFOG, and they have been presented for comments to the Eurostat Working Group on National Accounts. In addition, the first draft of COICOP has been widely circulated by UNSD, extending the involvement in the revision process to all United Nations member states, including developing countries. Comments were received from about forty national statistical offices and were taken into account at later stages of the revision by the OECD. Similar arrangements are in place to obtain the views of the widest possible circle of countries for the revision of COFOG as well.

COICOP consists of 14 divisions. Divisions 01 to 12 cover the individual consumption expenditures of households; division 13 covers the individual consumption expenditures of NPISHs; and division 14 covers the individual consumption expenditures of government. The disaggregations defined for divi-

sion 13 are, in effect, COPNI in its entirety. The disaggregations defined in division 14 are a subset of those defined for COFOG, and they relate to those groups and classes of COFOG which SNA93 defines as individual (rather than collective) expenditures.

Divisions 01 to 12 are considered final by the OECD and Eurostat, but divisions 13 and 14 cannot be finalised until COFOG is completed because of the close links between these three classifications. Work on establishing links between COICOP and the Central Product Classification (CPC) has progressed significantly but is not yet final.

COFOG is being drafted so that government expenditures on individual services and applied research and development (R&D) are clearly identified by function. A new division on expenditures on environmental protection is being considered, although an alternative is also being investigated for such expenditures is to identify them in a sub-category under each of the other divisions (similar to the treatment proposed for R&D). In this way, total expenditures on the environment can be identified as well as the amounts spent on the environment within each major category of government.

COPP

UNSD is revising the fourth classification of the "family" of the functional classifications which is the Classification of Outlays of Producers by Purpose (COPP). A paper which describes criteria to structure the new COPP was circulated to the members of ISW-GNA. A revised version of the current UNSD paper will be soon circulated to a larger audience for comments.

In the first place, it is proposed that COPP reflect purposes of expenditures in support of the production process such as research and development, sales promotion, etc. An effort will also be made to harmonize COPP with the main divisions of the other functional classifications, in particular when the lat-

ter reflect concerns responded to by government and households that are also addressed by enterprises. This applies for instance to health, education and environmental protection. In particular COPP may be used to identify production related data of ancillary activities of enterprises which are not treated as establishments in the traditional SNA analysis, but which need to be identified as separate units in satellite accounts dealing with issues such as R&D, human resources, environmental protection, etc. Consequently, COPP will also be harmonized with classifications of economic activities and products such as ISIC and CPC.

Feature article

Implementation of the 1993 SNA in Canada

by Mr. Kishori Lal
Director General, System of National Accounts
Branch, Statistics Canada

Statistics Canada has just completed a project detailing a comprehensive plan for the historical revision of the Canadian system of national accounts and the implementation of the 1993 SNA. This is documented in the Detailed Record of Issues, Discussion Notes and Decisions released by the System of National Accounts Branch of Statistics Canada. It must be considered as work in progress; as we implement the decisions, changes may be required and these will be incorporated in the final document to be issued at the completion of the historical revision in the fall of 1997.

We have made some 150 decisions, a number much higher than was expected at the beginning of the exercise last year. More than 50 professionals, mostly from the SNA Branch, have been involved in this project. The involvement of so many professionals may appear cumbersome but this mode was deliberately chosen so that the decisions would be "owned" by the very person who will implement them. A very important feature of the exercise is the

harmonization and reconciliation of the data series developed according to SNA conventions and those of the Financial Management System (FMS is the Canadian version of the IMF's Government Financial Statistics manual, GFS) for government sector statistics. Last year, the Auditor General of Canada expressed concern regarding the difficulties faced by the users in understanding the different definitions and conventions in the public accounts, the SNA and the FMS on such subjects as deficit or public debt of the federal government. Some 70 decisions, in the two chapters on the public sector universe and the FMS/SNA harmonization, when implemented, will harmonize or reconcile the statistical series in the three accounting systems. Changes developed in these two chapters should, we hope, prove useful to those at the IMF responsible for the preparation of the revised GFS manual to more closely align with the 1993 SNA.

Copies of the Record of Decisions on the SNA implementation (in electronic, printed or diskette form) or additional details are available upon request to my office (System of National Accounts, Statistics Canada, Ottawa, Ontario, Canada K1A 0T6, fax +613-951-9031, e-mail: lalkish@statcan.ca).

Meetings and seminars

The next joint OECD/ECE/Eurostat
Meeting on national accounts
will take place in Paris/France mid 1997.

ESCWA will hold a training workshop on the
1993 SNA implementation
for Arab countries in co-operation with the

Arab Monetary Fund in June 1997.

UNSD will hold jointly with ESCAP and ILO a
Workshop on informal sector statistics
for the Asian and Pacific region in Bangkok/Thailand from 12-16 May 1997.

Microcomputing package for national accounts compilation

by Michel Sérurier

National Accounts consultant at INSEE and Eurostat

With the new SNA many countries have started an effort to modernize their national accounts. This is all the more important as the demand for high quality macroeconomic information from both national economic agents and from the international level is increasing due to the progressing globalization of the world economy. In most cases this modernization effort starts with a computerization of the compilation processes. This has the advantage of simultaneously satisfying the demand for higher transparency with regard to the compilation procedures employed.

France has a longstanding tradition of responding to requests for technical cooperation in the field of national accounts. The expertise acquired over the years was reflected in various publications. The demand for cooperation has evolved over time and so

Features of 'ERETES'

The 'ERETES' software is structured around a relational data base. It is portable and permits to distinguish separate sub-modules. Each country decides upon the appropriate classifications to be used and chooses among a certain number of methodological tools.

ERETES is based on team work of a more or less significant number of national accountants. A PC-type server permits to control the entire compilation process. It also supports the reconciliation phase. The work is distributed for certain phases over various work stations. Every expert is responsible for a data subset, which is processed according to a pre-specified manner suggested by the software.

The overall compilation process is organized in three phases:

- data collection
- analytical work (balancing of supply and use, of the industry accounts and of the transaction matrices)
- cross-sectional tasks related to the analytical work

For the most frequent tasks, special tools are being offered, which ensure an automatic interface with the data base. It is for instance possible to download certain data into a spreadsheet. No automatic reconciliation of statistical discrepancies is suggested, leaving the responsibility of making certain adjustments entirely to the national accountant. Finally, the software offers the following features to facilitate the

work of the accounting team:

- a control screen, in order to follow the various tasks being executed
- a note pad, in order to store information on decisions taken or difficulties encountered
- an on-line help function, which is linked to the different screens, offering all relevant information related to a specific task

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This is the reason why the French Ministry of Cooperation and Eurostat decided to join forces for a pilot project under the leadership of INSEE in order to develop a micro-computing product, which did not only incorporate the relevant experiences, but which was also adapted to the framework of the new SNA. This product was developed in cooperation with three French speaking African countries (Central African Republic, Cameroon, and Cote d'Ivoire), countries which in the meantime use the new system for the compilation of their accounts. A general commercial version in French will be released shortly. The completion of this product was possible because of a close cooperation between a national accounts expert and a team of professional programmers.

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The proposed methodology is an integrated one: A statistical source is fed to all users in a unique pre-specified manner. Furthermore, the proposed method allows to indirectly estimate data items, which are often not covered by the statistics. The informal or hidden economy, insufficient basic information or various forms of fraud. This requires of course a well coordinated procedure of working with the given data base and the establishment of a clear iterative process leading progressively to the final reconciliation. At that point, tools are being offered, which permit to organize publication of the results and to transfer the accounts into the data base to be used for the compilation of subsequent years.

In its present form the software offers a coherent instrument for the annual compilation of the supply and use table and the industry accounts at constant prices. It does not yet provide the same infrastructure for the elaboration of institutional sector accounts, however, the data base certainly constitutes an excellent starting point for such efforts.

IMF Expert Group raises issues on financial elements of SNA

by Kevin O'Connor
Assistant Director, Statistics Department, IMF

The IMF is well advanced in producing a new Manual on Monetary and Financial Statistics. As part of the final stages of review, an Expert Group on Monetary and Financial Statistics was convened at IMF headquarters in November 1996. The Expert Group consisted of representatives of each of the member constituencies of the IMF, and representatives of international statistical organizations and regional central banks.

The objectives of the Manual include providing standard concepts and definitions to facilitate the compilation and presentation of comprehensive, timely, and useful monetary and financial statistics. A key objective is harmonization with the 1993 SNA. In this regard, the Group recommended several changes to the SNA methodology, and indicated that several other issues raised key methodology questions that should be further reviewed. As with all such recommendations, changes to the SNA can only be made by the ISWGNA and only when there is very substantial support for such changes.

Recommendation 1: Settlement payments on interest rate swaps, FRAs, and similar instruments

The Expert Group agreed that settlement payments on interest rate swaps, forward rate agreements (FRAs), and similar instruments should be treated as financial transactions rather than as property income payments (interest) as recommended in the present SNA standards (§ 11.34). This has been a contentious issue, but based on the strength of the views expressed in favor of the change, and changes in position by some experts, the Expert Group came to a recommendation that the SNA standards should be changed. The recommendation for change was based primarily on evidence of changes in market practice since the SNA standard was developed. Originally, it was believed that many or most transactions in these financial derivatives were matched with lending transactions and by their nature affected the actual effective interest cost of the borrowing. Such practices continue, and are explicitly recognized in financial accounting standards. However, it was felt that a significant change had occurred in market practices and that at present the vast majority of

transactions in these instruments is related to market positioning and trading between banks and other financial institutions. These transactions are basically financial in nature. It was also argued that it is not possible within the SNA framework to have property income payments without property, which also creates difficulties in measurement and in interpretation.

This is a significant change in methodology that will directly affect recorded interest flows with the rest of the world and with other sectors of the economy and will also affect recorded transactions in securities. Also, to the degree that the settlement payments related to these financial derivatives are used to hedge volatility in actual interest flows, a change in methodology may result in increases in recorded volatility of interest flows. It should be noted that some compilers are seeking relatively quick resolution of this issue because of the need to design new data collection surveys for financial derivatives. If this change is adopted, it will also be reflected in the Fund's balance of payments methodology.

Recommendation 2: Classification of institutional units that regulate financial institutions

The Expert Group was in general agreement that separate institutional units, including public bodies, that are primarily involved in regulating financial institutions be classified as financial auxiliaries rather than as part of the central bank subsector as recommended in 1993 SNA. In many countries, the central bank acts as

the regulator or supervisor of banks and other financial institutions, but there was agreement that separate units that act as regulators or supervisors of the financial sector should be classified as auxiliaries because they are not intermediaries by nature. This is in accordance with the standards adopted in the ESA.

Issue for consideration: Treatment of headquarters offices of regional central banks

An issue left unresolved by the Expert Group was whether the assets and liabilities of the central office of a regional central bank are allocated to the member countries, or whether it is nonresident to its membership and thereby holds its own assets and liabilities. Two regional central banks, Banque des Etats de l'Afrique Centrale (BEAC) and Eastern Caribbean Central Bank (ECCB), indicated that they were following the current SNA treatment (i.e. apportioning all transactions and

balances to member states), but the European Monetary Institute (EMI) indicated that it had only recently begun to review the issue and was not yet in a position to indicate a preference for either treatment.

It is possible that significant differences exist between the structure and practices of regional central banks and that different treatments may be appropriate. The regional banks that existed when the present SNA standards were developed tended to have unified struc-

tures, but it appears that the national and regional central banks under the prospective system in Europe might legitimately be viewed as separate institutional units. The Group noted that on this issue the analyti-

cal needs of the banks themselves should receive priority in deciding on the methodology. The treatment of this issue may also affect the balance of payments and international investment position.

Issue for consideration: Full Accrual Accounting of Interest

There was also a suggestion to clarify the treatment in the 1993 SNA of interest accruals on tradable debt securities by applying current market interest rates, rather than the interest rates at time of issue, to calculate interest flows. It was argued that this methodology was consistent with the requirements to use current valuations within the accounts, prevented discrepancies between the positions and transactions of creditors and debtors, and was needed to properly balance transactions and positions within the accounts.

The Chairman of the Expert Group indicated that the proposal raised substantial questions, and indicated that the SNA 1993 implicitly uses the debtor's viewpoint in order to derive measures of interest accruals. The Expert Group itself did not discuss the issue at length, nor did it take any position on its merits, but the Chair indicated that the ISWGNA would be notified in the hope that further discussions would clarify the SNA position. The Chair also noted that government interest transactions and fiscal balances might be affected.

Clarification: Offsetability on the market as a criterion for establishing the value of financial derivatives

The Expert Group agreed that "offsetability on the market" is applicable under the existing SNA standards as evidence of value for the purpose of establishing the asset boundary for financial derivatives (§ 11.28, 11.34). Offsetability is the ability to close out positions by entering into matching positions in the market in closely related instruments. The ability to do so is taken as evidence that the financial derivative has a measurable value. The values are commonly used by market participants, and are also used under financial accounting standards.

System of Accounts (ESA) also explicitly recognizes offsetability. This was considered by the Expert Group to be a point of clarification of the SNA standards and no change in the basic standards is implied. Notification to compilers is appropriate. As a practical matter, this clarification results in inclusion of a fairly broad range of financial derivatives within the financial asset boundary, but some financial derivatives remain outside the financial asset boundary. More technical work remains to determine precisely which practices constitute offsetability.

There was consensus on this issue. The European

Manuals and handbooks

Since September 1996 the UN has made available
1993 SNA in Chinese.

OECD has recently released

Inflation accounting: A manual on national accounting under conditions of high inflation.

Orders to OECD Paris (fax 33 1-4910-4299) or OECD centers in Mexico (fax: +525-606-1307) and Washington, D.C./USA (fax: +202-785-0350).

FAO has recently published

A system of economic accounts for food and agriculture (SEAFSA).

The system has been formulated using the concepts recommended by the 1993 SNA. SEAFSA can be viewed as a specific application of the 1993 SNA to meet the requirements of analysts, policy-makers and planners dealing with various economic activities relating to food and agriculture.

Eurostat has now made available

The European system of national accounts

(ESA 1995) in the eleven Community languages. Although ESA 1995 is broadly consistent with the 1993 SNA with regard to definitions, accounting rules and classifications, it incorporates also certain differences which make it more in line with use in the European Union (EU). ESA 1995 is a major improvement on the previous version, which dates from 1979, with considerable progress made in the harmonization of methodology and accuracy. ESA 1995 may be ordered from the Publication section of the EU in Luxembourg, tel. +352-2929-42027. The paper version [catalogue number CA-15-96-001-**-C (**=DA, DE, EN, ES, FI, FR, GR, IT, NL, PT, SV)] costs ECU 50. A multilingual CD-ROM (catalogue number CA-15-96-002-1F-Z) is available at a price of ECU 80.

Update: SNA 1993 on CD-ROM

As announced in the previous *SNA News and Notes* the SNA 1993 on CD-ROM was published in July 1996. Users have expressed their satisfaction and emphasize the usefulness of features such as full-text searches, indices, hyperlinks and bookmarks. As any new product the SNA 1993 CD-ROM is not entirely 'bug-free': So far, two minor problems have been discovered referring to chapter printing and the index. Here are the solutions:

1. When selecting any of the 'Print Chapter' options from the file menu, a message will appear, saying that the "PRMANY.DLL" file cannot be found. This file is actually missing on the CD. Please, contact UNSD via E-mail, so that we can send you the "PRMANY.DLL" file. Copying it into the /windows/system/ directory will solve the problem. We will also make this file available on our UNSD homepage for downloading. Please note, that the

print topic command works properly.

2. The link to the "H" entries is inadvertently missing in the SNA-CD book index. These entries can be accessed as follows: On the main SNA-CD screen click on "Search"; type in "handbook" on the search line; click on "Selected topics groups" in the lower left-hand column of the search window and "book index" in the right-hand list of "topic groups", then ENTER; "Index H" will come up in the Search Result window; selecting it with ENTER will bring up the "H" list.

Some users have experienced difficulties in viewing the SNA tables. This is due to incorrect installation of the CD-ROM: Page 2 (column 2) of the SNA-CD booklet describes in detail how the table view function has to be activated in a separate step by specifying the working directory.

Training activities in the field of national accounts

Many institutions are offering a variety of training programmes related to the new SNA. Two of these programmes are presented in the following:

Statistical Institute for Asia and the Pacific (SIAP): SIAP was established in Tokyo in 1970 as an international centre to bring about regional co-operation in training government statisticians from developing countries of the region. The centre piece of the Institute's training programme is the Group Training Course in Practical Statistics. It is a 6 months course which focusses on the practical aspects of statistics relating to the work of relatively new official statisticians. In the last 3 months of the course the participants have the option to specialize in one topic, national accounts being one of the choices.

A national accounts module is also included in other training courses of SIAP such as the Special Group Training Course in Analysis and Interpretation of Statistics for middle-level statisticians, and the Country Courses on special issues. The duration of the former course is 2 months.

Further information can be obtained from the United Nations Statistical Institute for Asia and the

Pacific (SIAP), Economic Cooperation Centre Bldg., Annex 2F, 42 Honmura-cho, Ichigaya, Shinjuku-ku, Tokyo 162, Japan, tel. +81-3-3357-8351, fax +81-3-3341-1298 or +81-3-3356-8305; or by e-mail: unsiap@po.ijnet.or.jp.

Bureau of Economic Analysis (BEA): The BEA presents seminar programs for international income accountants. Training courses include programs in evaluation, planning, and promoting economic growth and social improvement. The following courses are held in English:

New System of National Accounts 1993, January 21-March 7, 1997; U.S. National Income and Product Accounting, March 10-May 2, 1997; Prices and Constant-Price Accounting, May 5-June 27, 1997; Economic and Social Indicators, June 30-August 22, 1997; Input-Output Accounting, August 25-October 17, 1997; Capital and Financial Accounts, Balance Sheets, and International Transactions, October 20-December 12, 1997.

Nominations are being accepted. Further inquiries should be directed to BEA, U.S. Department of Commerce, tel. +202-606-9728, fax+202-606-5322.

Editorial note

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