

FIFTH EXPERT GROUP MEETING ON SNA COORDINATION
Harare, Zimbabwe, 8 to 17 April 1991

SUMMARY CONCLUSIONS

Topics raised by Regional Commissions and Statistical Commission

a) Measurement of the output of financial intermediaries

1. Two broad topics that were raised in Regional Commission meetings were addressed under this heading:

- (i) the measurement of output of particular financial agents including money lenders, development banks, and central banks; and
- (ii) the allocation of the output of financial intermediaries among users.

2. The group reaffirmed the position that the imputed output of financial intermediaries with respect to their intermediation activities is estimated by their total property income received (excluding property income received from the investment of their own funds) minus their total interest payments.

3. With respect to money lenders, the group agreed that money lenders who incurred liabilities to mobilize funds were financial intermediaries and their output should be measured according to the same rules as other intermediaries. For money lenders who made loans from their own resources, there were several positions. Some experts felt that lending per se did not constitute the provision of services so that lenders from their own resources are not involved in productive activity. However, a majority of the group agreed that professional money lenders should be treated as producers of services provided that the service could be identified. There were no specific proposals as to how to measure output of these money lenders.

4. The group agreed for development banks that the criterion adopted by the Financial Flows and Balances Meeting (paragraph 16 of the summary report) for separating development banks from government was appropriate and adequate. The group also agreed that the transactions of development banks as such did not raise problems with respect to the measurement of output. As with other financial intermediaries, the imputation is only related to on-balance sheet assets and liabilities.

5. Concerning the financial intermediation activities of central banks, the group agreed that the output of these institutions should be measured in the same way as for other intermediaries, although it was recognized that the nature of central banks could lead to some extreme measurement results in some cases.

6. Concerning the allocation of the output of financial intermediaries, the group agreed that the Blue book should advocate the allocation of this output among users as had been decided by previous meetings rather than reverting to the 1968 SNA treatment. The group recognized that definitive guidelines for carrying out this allocation had not been developed, but the

Blue book should suggest possible allocations according to a reference interest rate, according to sectorized assets and liabilities, or according to particular national practices.

b) Sub-sectoring of the household sector

7. The meeting unanimously recommended that private non-profit institutions serving households will constitute a full sector instead of a sub-sector of the household sector as earlier decided,

8. The sub-sectoring of the household sector presently included in the draft SNA (employers, own-account workers, employees, recipients of property and transfer income) will be maintained as the central international classification. The text of the Blue book will recognize, in the interest of flexibility to reflect national circumstances and analytical needs, that additional criteria may be used in conjunction with these so long as it is possible to produce data on the international classification.

c) Imputing a value for labor in measuring the output of non-profit institutions/community activities

9. The group reaffirmed the earlier recommendation (Household Sector meeting, 1987) that voluntary labor inputs into production of services by non-profit institutions should be valued at actual compensation paid even if this were very low or even zero.

10. Production of goods such as roads, schools, etc. that is organized on a communal basis should be valued at market prices of similar goods. Where such market prices are not available, output will be valued as the sum of costs including an imputation for the value of labor input (but no imputed profit). The value of labor input imputed in valuing output will not be distributed as compensation of employees, but remain as mixed income. Such production will be shown as carried out by the households involved.

11. Capital goods produced in this way will be allocated to the balance sheet of the sector responsible for their upkeep and this will be effected by means of a capital transfer.

d) Production boundary--household production and the goods-services distinction

12. The discussion was based on Regional commissions' views on the production boundary for household activities, particularly with respect to the treatment of water carrying. The meeting discussed three questions:

- (i) Was the goods and services distinction sufficient to delimit the production boundary with respect to household activities?
- (ii) Was water carrying a good or a service?
- (iii) If water carrying was a good, and therefore included within the production boundary, how should it be valued?

13. The group concluded (except for questions with regard to employment, which were discussed separately):

- (i) The goods and services distinction in the current draft was sufficient to distinguish those household activities that fall within the production from those outside it;
- (ii) Water is a good. Water carrying, which was better described as supply of water, is a part of the production process of this good and should be included within the production boundary where it was significant. Significance should be determined flexibly with reference, inter alia, to the volume of such services and the effort (distance) required to collect it;
- (iii) Valuation, as in many other cases of imputation, should be made on the basis of a market price, if one could be determined, and otherwise on the sum of the costs (imputed value of the labor involved). The group recognized the practical difficulties involved in estimating value.

e) Rent on government buildings

14. As there was a mixed reaction in the Regional Commissions to the proposal to impute a rental value to government owned buildings, the group was faced with four questions:

- (i) Should a rental value for government buildings be imputed?
- (ii) What rent should be imputed?
- (iii) Should separate establishments that provide rental services be created within government?
- (iv) Should we add estimated cost of capital (based on interest rates or alternative rate of return to government production)?

15. A large majority of the group favored imputing a rental value for government buildings.

16. The group agreed that valuation should be based on a market comparator where available. In the absence of a market comparator, the cost approach should be followed and this cost should include capital cost. In either case, double counting of costs already included should be avoided but there was no need for creating a separate establishment. The difference between the imputed rental value and the costs already included would be shown as operating surplus of government.

17. The group further agreed that a similar treatment should be accorded to buildings of private non-profit institutions.

18. While some experts advocated the inclusion of capital cost for all government fixed assets, the group was not in favor of supporting the extension at this time.

f) Insurance--holding gains in the calculation of output

19. Misunderstandings arose in some Regional Commission meetings concerning the inclusion of holding gains and losses in the calculation of the output of insurance companies. The draft SNA will make clearer that the holding gains and losses are not included in output but must explicitly be taken into account in the calculation of output in order to eliminate them if they are included in technical charges (claims and changes in actuarial reserves and reserves for with-profits insurance policies).

Consumption subsidies

20. Two main questions were discussed:

- a) What subsidies are to be regarded as consumption subsidies?
- b) How are the consumption subsidies to be treated in the system?

21. In the December 1990 meeting, the group came to the following recommendation:

"Most experts agreed that some subsidies (not yet delimited) on goods and services destined for final consumption should be treated as government consumption expenditure in the revised SNA; others will continue to be treated as subsidies. The identification of subsidies concerned requires further study."

22. The group agreed to discuss two alternatives of treating consumption subsidies within the integrated system:

- a) treat them as government consumption expenditure and as part of actual household consumption; or
- b) treat them as subsidies as in the 1968 SNA.

23. In the case of the second alternative it is also possible to show the actual final consumption including the value of consumption subsidies, but outside the integrated system.

24. The group could not propose a definition which precisely says which subsidies should be included and which not. Instead, a flexible arrangement is proposed to meet the special situations in different countries. Included should be all subsidies which are clearly destined to benefit specific groups of the population or all households. This could include not only subsidies on products for final consumption but also other subsidies on production and subsidies on products that are used to produce goods and services for final consumption if it is clear that these subsidies are for the benefit of households.

25. Mainly because of the problem of identifying and defining consumption subsidies, the group recommended not to change the treatment of subsidies.

26. There will be a supplementary presentation of subsidies by purpose so that consumption subsidies can be identified.

27. Outside the integrated system there should be a supplementary table in which actual final consumption will be shown with a different valuation that includes the value of consumption subsidies.

Employment and population

28. The group confirmed the importance of population and employment statistics in the analysis of national income and productivity and agreed that there should be a chapter in the revised Blue book on this subject.

29. In its discussion of the draft chapter on "Labor: population and jobs", the group considered four aspects:

- a) Problems with regard to self-employment;
- b) measurement of employment and labor;
- c) breakdowns of employment figures; and
- d) residence.

30. Self-employed include employers and own-account workers including unpaid family workers. The question of how to treat sole owners of corporations working in those corporations needs to be clarified.

31. The group agreed that the criteria to be adopted for employment data in the Blue book should to the extent possible be the same as those used by the ILO. Relevant extracts from the ILO text should be appended to the SNA chapter. Some experts thought that the ILO threshold of one hour's work per week was too low. It was noted, however, that this threshold had been introduced during recent extensive discussions in the ILO.

32. The treatment of persons laid off was queried as it may lead to double-counting; it was agreed that this point should be clarified.

33. With regard to measurement in terms of quantity, it was agreed that hours worked is the most meaningful concept for productivity studies. Three other possible measures--the number of jobs, of full-time equivalents, and of persons--should be mentioned in the text as next best alternatives. In view of the practical difficulties of measuring the hours worked by the self-employed, it may be difficult to treat them other than on the basis of one full-time equivalent.

34. It was noted that a weighted index of hours worked by employees, taking quality of work into account as measured by relative rates of remuneration, is equivalent to the value of compensation of employees at constant rates of remuneration. In practice, it is not possible to compile a similar measure for the self-employed.

35. Two breakdowns of employment should be recommended as important: a) by industry, and b) by type of employment (e.g., employees and self-employed). The possibility of other breakdowns, such as male/female, should be indicated.

36. It was noted that the paragraphs on residence used inconsistent and, in places, inappropriate terminology. There was a need to clarify the relationship between the basis of census data and residence as in the SNA.

Income

37. Discussions under this item covered two issues:
- a) Issues raised by Peter Hill, and
 - b) Entrepreneurial income, an issue raised by Regional Commissions.

38. The discussion focused on clarifying the economic significance of primary income and factor income. Most participants recommended that the term "factor income" should in fact be avoided in the Blue book. A rationale was suggested for primary income on the following lines--what is available as a return for participating in production or allowing your capital to be used. Additionally, indirect taxes are primary income of the government sector but no analytic significance should be attached to this category.

39. The concept of entrepreneurial income will be retained. It is unambiguous for the corporate sector, but it was recognized that dividing interest received and paid that pertain to households in their roles of consumers and of producers may be problematical in some circumstances.

Interest and inflation accounting

40. The discussion was based on the paper "interest and inflation accounting", prepared by Andre Vanoli. A broad range of issues were discussed including methods of measuring real interest and the desirability of including within the central framework of the SNA a treatment of interest and capital gains and losses that would apply only to countries with significant rates of inflation.

41. The group agreed that:
- a) the nature of the problem and the information needed to arrive at a possible solution should be elaborated in the relevant chapters of the Blue book;
 - b) as already agreed, a supplementary table should be prepared that would contain information on holding gains and losses on relevant financial assets and liabilities necessary to interpret income in conditions of significant inflation;
 - c) high priority should be given to the preparation of a handbook on inflation accounting that could be published at the same time as the publication of the Blue book; and
 - d) in the chapter "Application of the integrated framework to various circumstances and needs", a possible parallel treatment of interest suitable for countries experiencing significant inflation would be included that would not preclude a more comprehensive treatment in the handbook on inflation accounting.

Changes in stocks and work in progress

42. The group had a lengthy discussion, partly in response to comments from Regional Commissions, on the draft SNA annex 5 "Changes in stocks and holding gains". The group reaffirmed that output includes the value of work in progress to be valued at basic prices; if these are not available, they could be approximated by costs plus a mark-up for profits.

43. The group also reaffirmed that storage of products is a productive activity and that a volume element is included in the observable price change over the period of storage.

44. As in the 1968 SNA, the group agreed that for proper valuation of output, goods put into stock should be valued at the prices prevailing at the moment of entry and goods withdrawn are valued at the prices prevailing when they are withdrawn.

45. The present annex on changes in stocks should also cover the levels of stocks in the balance sheet and would be more appropriate towards the end of the Blue book.

46. Livestock reared for slaughter and meat production is to be included in stocks; livestock raised for other purposes (e.g., breeding and transport) is to be included in fixed assets. Whereas the 1968 SNA recommends that where the purpose is unclear or mixed, the animals should be treated as stocks, the group recommended that this decision be left to the judgment of national statisticians to reflect their circumstances.

Assets

47. Discussions under this item covered two issues:

- a) Wealth only assets; and
- b) Implication of earlier decisions, focusing on (1) non-financial non-produced assets, (2) military durables, and (3) R&D.

48. Wealth only assets was taken up following the decision of the December 1990 meeting to create a category of capital to include precious metals and other valuables and in response to discussions in a Regional Commission meeting concerning the holdings of gold by households.

49. The group concluded:

- a) That expenditure on these types of items--to be referred to as "stores of value" assets--should be treated as a third type of capital formation, rather than the current treatment. Such capital formation could be carried out by any sector.
- b) The items to be treated in this way are (1) of significant value, (2) are acquired as stores of wealth in that they are not to be used primarily for production and consumption, and (3) are expected to have a second-hand value at least as high as the cost of acquisition.
- c) The classification of transactions in goods and services is to be amended to show (1) acquisition of new capital assets, (2) acquisition of used capital assets, and (3) disposal of used capital assets as a breakdown under gross fixed tangible capital formation and gross fixed intangible capital formation.

50. The treatment of second hand assets in external transactions should not be changed--that is, they should continue to be treated as exports and imports.

51. The discussion on non-financial non-produced assets in general (see also R&D below) revolved around three aspects: rest-of-the-world treatment, valuation in the balance sheet for periods after the initial purchase/sale, and terminology.

- a) The earlier decision to use the notional resident enterprise treatment only for land was confirmed. When transactions in other non-financial non-produced assets occur, they should therefore appear in the capital account and not the financial account.
- b) New historical monuments, major repairs to historical monuments, and land improvements are fixed capital formation and therefore are written off via consumption of fixed capital. Patented entities, goodwill, and transferable contracts should be written off via the other changes in volume of assets account.
- c) The use of "tangible" and "intangible" will be retained in the draft if better terminology cannot be found.

52. With respect to military durables, the apparent anomaly that use of missiles and ammunition in the gulf war did not result in current expenditure and that loss of planes and tanks did not affect balance sheets was not seen as a reason to change the recommendation.

53. With respect to R&D:

- a) Receipts from licensing are to be viewed as sales of services by the owner of the patent (as with film licensing) and as intermediate consumption by the purchaser.
- b) It is important to identify R&D expenditure especially because of the recommendation to treat R&D in a satellite account. It was reconfirmed that R&D was not capital formation and agreed that it was not an ancillary activity. R&D should be shown as output if delivered between enterprises or between establishments. Special recording of intra-establishment R&D outlays was not recommended but such expenditures should be captured in a classification of business expenditure by purpose.

Transition countries

54. The discussions covered:

- a) Three specific issues raised in a paper prepared by Mr. Sandor entitled "Proposed changes in present draft of SNA to make it applicable for countries in transition"; and
- b) Other issues related to transition economies.

55. With respect to Mr. Sandor's first issue on constitutionally one-party systems to be included in the general government sector, the group agreed that the point should be included in the Blue book and that the author should find appropriate wording.

56. With respect to large investment projects among CMEA countries, two issues were raised--the recording of the activity and the recording of resulting flows. With respect to the activity itself, it was agreed that when such activity was within a country a notional unit should be created. When such an activity involved construction on a border with participation

of several countries, the group agreed that the treatment in principal would be to share the transactions and balances among member countries of the group according to their share of participation in the project; in some cases where one country had almost all of the participation, it might be suitable to assign all transactions and balances to that country.

57. It was pointed out that resulting flows from such multi-country arrangements in CMEA countries were often made in-kind. The group agreed that such transactions did not present difficulties in principle but that the text of the draft Blue book on barter transactions would be reviewed anyway and that Mr. Ivanov would provide further information to Mr. Hill. It was also agreed that this and similar issues would be dealt with in detail in the Transition Handbook.

58. The third point in Mr. Sandor's paper related to including in the text reference to particular subsidies--subsidies to achieve government-set aims and subsidies to avoid shut-downs. It was agreed that these examples would be brought to the attention of the author.

59. There was further discussion of a number of other issues relating to transition economies. Conclusions were reached on two points. On a particular point with respect to external balances, it was agreed, since the IMF has substantial recent experience in the external accounts of transition countries and since the IMF is drafting the chapter of the Blue book on the external sector accounts, Mr. Ivanov would write to the IMF about this issue and attempts would be made to deal with it in the draft text.

60. On other transition issues such as use of comparable prices, depreciation, and imputation for housing services, it was agreed that there was very little scope for resolving problems that were still outstanding due to the need to draft and finalize chapters. However, it was agreed that Mr. Ivanov would review all relevant chapters to identify areas where the SNA treatment may need to be adapted. The SNA draft will make reference to these issues.

Pensions

61. The group had no new documentation or proposals in this area so the discussion on this topic began with an update of activities since the December 1990 meeting. EUROSTAT had arranged a consultancy with Mr. John Walton to deal with the issues raised in the paper "Pensions in the SNA" that had been prepared for the December meeting and other issues related to the revision of SNA and ESA. Mr. Walton had prepared an outline of a paper which was expected to be finalized by the end of May, which would be very late in the revision process. The group was therefore asked to address three possibilities--(1) retain the 1968 SNA treatment of pensions; (2) adopt the ESA treatment that dealt with some of the criticisms in this regard in the SNA; or (3) deal with the issues in an annex and a set of supplementary tables.

62. The group agreed that the 1968 treatment of pensions would be retained in the central framework. The group recommended that the pension issue be

dealt with in an annex or in a chapter outside those on the main sequence of accounts which would include other topics in a similar status. Coverage would consist of bridge tables and supplementary presentation tables along with appropriate text. The group further agreed that Mr. Walton be asked to produce a draft for a section of a chapter or an annex; that a small task force be set up to advise the Intersecretariat Working Group on the draft; and that the Walton draft be circulated to all members of the Expert Group. The results of the task force work will also be circulated to the Expert Group.

Statistical units in agriculture

62. In its 1988 meeting on Production Accounts and Input-Output Tables, the Expert Group proposed that a national farm concept should be adopted for agriculture. The group felt, however, that clarification of this concept was necessary and that this issue needed to be reconsidered.

63. Two questions had to be decided:

- a) Should the individual establishment or the national farm be the statistical unit for agriculture in the SNA?
- b) Should output for agriculture be defined excluding uses for intermediate consumption within the same establishment, in accordance with the general definition of output in the SNA?

64. The group agreed that in agriculture the statistical unit and the definition of output should be the same as that proposed for other market producers in the SNA. The statistical unit is the establishment as an individual agricultural holding. The output will include transactions between agricultural holdings but will exclude products for intermediate consumption within the same agricultural holding.

65. It was confirmed that in agriculture as in other activities, changes in stocks also includes that part of the output for use as intermediate consumption in a future period within the same establishment.

66. It was recognized that statistical information in agriculture is often only available in total, including products used for intermediate consumption in the same agricultural holding. If no additional information on sales is available, a "gross-gross" measurement of output is the only possibility to be applied. In these cases, the recording of total output, that is, harvested output excluding losses on the producing farm between harvest and the utilization or storage of the goods in question, as proposed by the FAO, is the only possible measure of output in agriculture. This should not, however, be the general rule.

BOP-SNA annex

67. The discussion on the annexes dealing with the relationships between the SNA and the IMF's statistical systems began with a review of the IMF's plans for revising each of its manuals--Balance of Payments, Money and Banking, and Government Finance Statistics. The revised BOP manual is

expected to be available shortly before the revised SNA and the revised Money and Banking and Government Finance manuals will be available after the revised SNA.

68. With respect to the ROP-SNA annex, the group agreed that there was a great degree of harmonization between the BOP and the SNA except in the detailed classification and that the overall approach taken by the annex was appropriate. Regarding the detail in the tables, most speakers felt that this was useful for both compilers and users and should be retained in all tables. As to whether the draft annex adequately described the relationship between the two systems, a number of experts indicated that they had not had enough time to fully evaluate this issue and would write to the IMF if they had any suggestions in this regard.

69. The IMF agreed to examine the possibility of adding diagrammatic presentations of the links between the systems and to review certain specific issues raised by the experts.

GFS-SNA annex

70. Unlike the BOP which had been substantially harmonized with the SNA, it was recognized that the Fund's government finance statistics differed quite basically from the SNA in many aspects, particularly the coverage of transactions, timing of recording, and analytical framework.

71. The group agreed that the draft annex was a useful presentation of a complex problem. It was further agreed that the IMF would revise the introduction to the annex to provide more balance on the objectives of GFS and SNA. The presentation and accompanying text for chart 7 of the draft would also be reviewed as would a number of specific issues raised by the experts. Finally, the IMF agreed to examine the possibility of including numbers into the tables which linked GFS and SNA concepts in a matrix presentation. In this last regard it was noted that such an illustration might give the impression that the two systems were closer than was actually the case.

SAMs

72. The discussion concerned the draft outline on SAMs prepared by Steven Keuning of the Netherlands' CBS. Four specific questions were dealt with:

- (a) Should the text in the revised SNA emphasize that the SAMs presented are examples and not the SNA SAM?
- (b) Should the SAM presentation be included in a separate chapter or integrated with an existing chapter?
- (c) Should the SAM presentation include opening and closing balance sheets?
- (d) Could SAMs include classifications which are not found elsewhere in the SNA?

73. Most of the group welcomed the material presented as an outline of a SAM presentation in the SNA. The SAMs are seen as important in presenting

the flexibility of the system. Accordingly the SAMs should be presented as examples reflecting such flexibility, illustrating the diverse analytical needs of countries. There was some concern however about the way the SAM presentation would be explained in terms of its place in the system as a whole.

74. Most of the group agreed that there should be a separate chapter on SAMs. Some concern however was expressed about the appropriate balance between the material presented in that chapter and other chapters.

75. Most participants thought that balance sheets should be conceptually integrated with the presentation of SAMs.

76. It was agreed that classifications not included elsewhere in the SNA could be shown in the presentation of SAMs.

77. When discussing references to SAM literature, it was noted that the revised SNA does not include references to selected literature; there was support however for exploring options.