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Report of the High Level Forum on the Long Term Development of the System of National Accounts

Washington, 17-18 November 2008

Prepared by the ISWGNA

Background document for the UNSC

Report

High Level Forum on the Long Term Development of the System of National Accounts

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Introduction

1. The Statistical Commission at its February 2008 session requested the organization of a meeting of a High Level Forum to consider the long-term development of the *System of National Accounts*. This task was entrusted to the member organizations of the Intersecretariat Working Group on National Accounts (ISWGNA) consisting of Eurostat, IMF, OECD, United Nations and World Bank. The purpose of this meeting of the High Level Forum was to examine the long-term implications of rapid changes in the global economy on the System of National Accounts (SNA), users' needs and other factors that have an impact on the direction of future methodological development of the SNA and related economic statistics.
2. Following up on that request, the ISWGNA first consulted with several heads of statistical offices to discuss the mandate, functions, composition and governance of a high-level group. Afterwards, all Member States were consulted on the agenda of a High-Level Forum to be organized during 2008, with the involvement of all interested countries. In addition to its main purpose of discussing the future direction of development of the SNA, in its considerations the High-Level Forum has taken into account the ability of countries to collect primary data and to maintain a national accounts system. Furthermore, it considered the choice between imputed versus observable transactions when considering the role of satellite accounts vis-à-vis the core accounts.
3. The meeting of the High Level Forum was held on 17 and 18 November 2008 and was hosted by the World Bank in Washington, D.C. The meeting of the High Level Forum was convened with the involvement of interested countries and other stakeholders in order to give full consideration to their views and advice. The meeting was organized in four substantive sessions, each consisting of two to four presentations of invited speakers followed by one to two discussants' remarks and open floor discussion, and was concluded with a wrap-up session based on the chairs and rapporteurs' oral summaries. The meeting was conducted in English.
4. The purpose of the meeting was to:

- a. Provide an opportunity to discuss and seek broad-based consensus on the possible future direction of SNA development.
 - b. Provide a forum for a broad range of stakeholders, including countries, international organizations and academia to contribute.
 - c. Report back to the Statistical Commission on the possible long-term development of the SNA.
 - d. Formulate conclusions of the meeting to be used as an input for the SNA research agenda for consideration in drafting relevant parts of Volume 2 of the *2008 SNA*.
5. The agenda had been drawn up taking into consideration the comments on a tentative list of topics received from countries and international organizations in the above mentioned global consultation undertaken in July/August of 2008. The succession of four substantive sessions reflected the need to review theoretical, policy and operational aspects of the SNA development before turning to the future research agenda.

Summary of the main outcomes

6. It was a constructive meeting and managed to meet its objectives successfully in spite of the relatively narrow range of participants, composed mainly of staff from national statistical offices and international organizations closely associated with the SNA. More importantly, the timing of the High-Level Forum, coinciding with the meeting of the G20 in Washington D.C., provided an opportunity to discuss the implications of the current world financial crisis for the national accounts.
7. This high-level meeting of the international statistical community confirmed that macroeconomic accounts are at the heart of the economic statistical information system. These macroeconomic accounts are seen as the proper policy response by the statistical community to provide adequate information on economic developments of a global interconnected nature.
8. The importance of a full articulation of the balance sheets was confirmed, irrespective of the stage of development of an economy, with a full integration with the accounts of the real economy. The international agencies, therefore, should advance this understanding in their implementation programmes on the SNA by being in direct communication with the heads of the national statistical agencies to prioritize national accounts and related macroeconomic standards in their programmes.
9. Further research has to be undertaken on the financial assets classification and sub-sectoring of the institutional sectors in light of the innovations in structured financial products and new risk and liquidity management practices, including the ultimate ownership links with off balance sheet entities.
10. The participants of the High-Level Forum acknowledged the need for a stable set of core accounts, but also emphasized the need for flexibility in producing national accounts statistics that incorporate important emerging features of the economy. Therefore, the

international agencies should assist in defining the “core” of the national accounts at different stages of development.

11. The requirement of meeting the emerging features of the economy was also reflected in the need expressed to obtain a full articulation of the drivers of growth, completing the production accounts and thereby strengthening the link between the real and financial accounts. It was suggested to extend research to incorporate a broader range of knowledge assets in the accounts to obtain this goal.
12. Apart from the fact that the SNA should be able to reflect the “real” economic situation during periods of rapid change, such as with the current financial crisis, further research should advance multiple measures of well being and poverty through the development of social accounts to articulate the link of the conventional measures of growth like GDP to the household sector.
13. Although some suggestions were presented for changing some of the imputations in the national accounts, by considering a pure monetary system versus an elaboration in non-monetary accounts, the High-Level Forum did not make specific proposals regarding changes to the current recommendations in the SNA.
14. The High-Level Forum further articulated that an explicit communication strategy should be developed to advance research for official statistics by strengthening the collaborative arrangements with the academic community, the regulatory authorities, the business accounting community and the corporate sector.
15. Apart from the above-mentioned directions of research and confirming the need to advance the research in environmental accounting, the High-Level Forum did not suggest significant changes to the directions already set by the ISWGNA for the research agenda.
16. The Forum did not recommend any follow-up meetings but the ISWGNA concluded that the need for another meeting of a high-level group to examine the future direction of the SNA should be assessed in two to three years time. In the next paragraphs a more detailed report of each of the sessions is given. These reports are based on the contributions of the rapporteurs for each session.

More detailed outcomes per session

17. **Opening of High Level Forum:** The High Level Forum was opened by welcoming remarks from Ms Shaida Badiie, Director, Development Economics Data Group, World Bank and Ms Katherine Wallman, Chief Statistician, Office of Management and Budget, USA. Mr. Walter Radermacher, Director General, Eurostat and Chair of the ISWGNA outlined some of the main issues to be considered in this conference. He mentioned the issue of the use of estimates based on models as a very important topical question, and raised the aspect of role and function satellite accounts. Furthermore, on the revision process he mentioned the frequency with which the system is revised, and the managing of the revision process. He stressed that the revision of the SNA is also the time to raise the

question of applying it in developing countries, and finally, he raised the issue of training and qualifications in the area of national accounts. Mr. Rob Vos, Director, Development Policy and Analysis Division of the Department of Economic and Social Affairs, United Nations, shared in his keynote speech some thoughts on the SNA from a user perspective. He underlined the quality of the system for forecasting purposes and reflected on the quality of a range of elements of the SNA from a user perspective and from the perspective of its usefulness in the current financial and economic situation. The need for a good macro regulatory framework was underlined.

18. **Session 2: Are the theoretical foundations of the 2008 System of National Accounts still relevant today?** This session was chaired by Mr. Paul Cheung, Director, United Nations Statistics Division/Department of Economic and Social Affairs. Invited speakers were Mr. Peter Hill, Professor, Co-Editor of the 1993 SNA (The SNA: some outstanding issues) and Mr. Bart van Ark, Chief Economist, Conference Board (Bridging Theory and Practice in National Accounting). Mr. Wolfgang Strohm, Head of Department, National and Environmental Accounts and Employment, DESTATIS, Germany and Mr. Ian Ewing, Deputy Australian Statistician, Australian Bureau of Statistics acted as discussants in this meeting.
19. During this Session, the renaissance of macroeconomic accounts with these accounts at the heart of the economic statistical informal system was recognised. The focus in the discussion was on the macro-economic accounts. The accounts are the proper policy response by the statistical community given the global interconnected nature of the financial crisis as compared to the past financial crises in the 1990s which had a more regional and financial sector specific nature. It was stated that the integrated macroeconomic framework provided by the SNA is the only statistical framework that enables the interrelationships, the transmission of risk, liquidity and other exposures to be measured, whether through cross-border transactions and positions or whether between the domestic sectors. However, only relatively few countries compile the full range of statistics needed to identify the impact of the global financial crisis and the effects of the policy responses currently being implemented.
20. During the discussion a lot of attention was given to the importance of a full articulation of the balance sheets irrespectively of the stage of development of the economy, with a full integration with the accounts of the real economy. Several speakers mentioned that the international agencies should advance this understanding in their implementation programmes on the SNA by being in direct communication with the heads of the national statistical agencies to prioritize national accounts and related macroeconomic standards in their programmes.
21. Further research has to be undertaken in the financial assets classification and sub-sectoring of the institutional sectors in light of the innovations in structured financial products and new risk and liquidity management practices including the ultimate ownership links with off balance sheet entities. This research will allow for a further use of commercial data bases next to regulatory-cum-administrative data bases in the compilation of accounts.

22. **Session 3: Does the 2008 System of National Accounts meet today's policy needs?** This session was chaired by Mr. Walter Radermacher, Director General, Eurostat. Invited speakers were Mr. Munir A. Sheikh, Chief Statistician, Statistics Canada (The System of National Accounts and Policy Development with a Special Focus on Fiscal Policy), Mr. Steven Keuning, Director General Statistics, European Central Bank (SNA User Needs for Monetary and Financial Policy-making), Ms Tessa van der Willigen, Senior Advisor, Strategy, Policy and Review Department, IMF (The Global Financial Crisis: What are we learning about policy-makers' data needs?) and Mr. Steve Landefeld, Director, Bureau of Economic Analysis, USA and Mr. Pronab Sen, Chief Statistician, Central Statistical Office, India, acted as discussants.
23. It was generally felt, that, after years of concentration on micro-economic concepts, a macro-economic approach will have a come-back. That could strengthen the position of national accounting in general. Issues discussed in this context were core vs. satellite accounts, the cost-benefit-analysis of changes, changes of the concept/theory vs. implementation, flexibility/degrees of freedom in the concepts and the needs for the developing world.
24. These developments have to be seen in the context of certain constraints like input data/sources, the constraints of NSIs (budget, burden, capacities, etc.), The need for reprioritisation (international trade of goods versus trade in services, quality of R&D-statistics, etc.) was stressed as well as the better use of available data/sources (public and private).
25. In discussing priorities for inclusion of today's policy needs, emphasis was put on services, labour market issues, institutions and quarterly integrated financial data for sector accounts, balance sheets and cross border flows. Lower priority was given to industries and production, input-output tables with detailed breakdown of industries, and regional breakdowns.
26. From the perspective of the current financial crisis, the issues considered most important were Cross border flows, Relationship to business accounting standards, Communication with regulatory bodies, Asset prices, Impact on debt/deficit, "off-balance sheet" integration and analysis, Prudent approach in valuation and the breakdown of the production/products/services of the financial sector.
27. **Session 4 Organizing Future Revisions**, was chaired by Ms. Burgi-Schmelz (Director, Statistics Department, IMF). She opened the discussion with a summary of the IMF preparation note for the November 15, 2008 G-20 meeting on the implications of the recent financial crisis for economic statistics. Invited Speakers were Ms Kirsten Wismer, Director of Economic Statistics, Statistics Denmark (Considerations regarding future revisions of SNA), Ms Omi Elias, Director, National Accounts Statistics Division, Department of Statistics, Malaysia (Justification, criteria, implementability considerations for revisions – developed country perspective), and Ms Karen Wilson, Director General, System of National Accounts Branch, Statistics Canada (Governance, mandate and functions).

Mr. Shlomo Yitzhaki, Director General, Central Bureau of Statistics, Israel, acted as discussant for this session.

28. Ms. Kirsten Wismer offered a set of six principles on organizing the pace and scope of SNA revisions, mentioning that the SNA is already a highly developed and effective framework for economic statistics, well accepted by users as relevant for producing consistent time series on important economic variables; the SNA is part of a system of statistics, and promotes the coherence of the system; the SNA is based principally on observed facts, and imputations, modelling and assumptions should be kept to a minimum. Furthermore, she stated that a stable standard is needed to maintain international and temporal comparability and that a future update should incorporate lessons learned from the 2008 update and that future revisions should be infrequent.
29. Ms. Omi Elias underlined the need for a good justification for changes to the SNA that should clarify concepts for compilers, meet new measurement needs, and focus on country priorities; criteria for changes to the SNA should include their feasibility, consistency with a “core” requirement for both developed and developing countries, whether they meet new data needs, and whether they meet the needs of users on a continuum from the public to private sectors, consistency with emerging business accounting standards, and consistency with the available compilation resources. Finally, she mentioned that implementation of changes to the SNA should be based on an assessment of country achievement in national accounts compilation, country capacity to manage updates and extensions to their given levels of compilation achievement, and availability of technical cooperation resources.
30. Ms Karen Wilson concluded the presentations commenting on lessons learned from the 2008 update and that, in moving forward, determining the research agenda and building consensus, as well as good governance, are crucial.
31. Discussants emphasized the need to set clear targets for a future update, with a single or a few target objectives to which a larger array of other objectives could be subordinated. Valuation is an important future topic, particularly for internal transactions and imputations. Discussants noted the challenge of prioritizing improvements in the accounts in the face of international comparability requirements and national statistical priorities.
32. Comments from the floor acknowledged the need for a stable core set of accounts, but also emphasized the need for flexibility in producing a relevant set of national accounts statistics that incorporate important emerging features of the economy. The SNA should be able to reflect the “real” economic situation during periods of rapid change.
33. Revisions to the SNA standard are costly and time consuming to implement. Consequently, revisions reduce the international comparability of data, as countries will be passing through different stages of implementation at a given point in time. However, it also was observed that waiting as long as a generation between updates could decrease rather than enhance comparability, as countries affected by new economic developments will meet user demands to capture them in the accounts one way or another. Discussion agreed that 25 years is too long a period to wait between revisions, for example, in maintaining the

institutional memory of past revisions as new revisions are considered. However, it also was acknowledged that the “core” of the SNA has matured and stabilized to a large extent, exemplified by the largely marginal nature of the 2008 updates, as measured by their impact on GDP.

34. There was general sentiment toward precise identification of the “core” of the SNA that all countries should observe and a set of widening concentric circles of “non-core” and satellite presentations of statistics that are, to some extent, optional. Comments suggested that revisions and updates to the “non-core” system could happen on a more frequent, as required and feasible basis, while “core” changes would be gathered over time and made only after rather longer intervals. The “core” could be the basis for periodic country audits by international organizations of the degree of observance of the requirements of the SNA standard.
35. Commenters felt that prioritizing should arrange items on the update agenda by assessments of the net benefit the change would bring. Those items with the highest net benefit get highest priority.
36. A way of splitting “core” from “noncore” changes to the SNA was proposed whereby “core” changes affect concepts and classification, for example, of institutional units between sectors, or of expenditures between intermediate consumption and final expenditure. “Non-core” changes involve questions of scope, for example, the inclusion of household production of services for own final use within the production boundary.
37. There were not many comments on governance of a future revision. One commenter felt this is best left until the next revision is contemplated. On the other hand, the more frequent revisions to “non-core” parts of the SNA still may require earlier rather than later consideration of revision governance. Discussion noted the successes in transparency of the 2008 SNA revision, but also pointed to the need to work harder to bring important but not fully represented stakeholders into commenting on the revision process. It was noted that revision of the standard requires time and money, and that the 2008 revision could have used more of both. It also was noted, however, that the Statistical Commission consciously chose limited scope and a definite target date at the outset, and these dictated the sometimes severe time pressure felt in the revision and commenting process.
38. **Session 5: Research agenda for future SNA development** was chaired by Mr. Charles Aspden, Statistics Directorate, OECD. Invited Speakers were Joe Grice, Board Director, Office for National Statistics, former Chair of the EPC, United Kingdom (Criteria for setting priorities for the research agenda), Joseph Aruna Lawrence Kamara, Statistician General, Sierra Leone (Overcoming constraints in the implementation of revisions) and Mr. Peter van de Ven, Director of National Accounts, Statistics Netherlands (Dealing with external challenges in the compilation of national accounts: The Dutch response). Mr. Michel Mouyelo-Katoula, Division Manager, Statistical Capacity Building, African Development Bank and Mr. Steven Keuning, Director General Statistics, European Central Bank acted as discussants.

39. Mr. Joe Grice (UK ONS) noted that a large number of issues had already been proposed for inclusion in the research agenda of the 2008 SNA, and more were likely. It was therefore important that they should be addressed in an order of priority based on explicit criteria, such as the magnitude of the benefits of implementing a change in the SNA relative to the costs. A cost-benefit analysis should take account of the costs of research and implementation, user needs and breadth of potential usage. These proposals received the broad support of the meeting.
40. The paper of Mr. Joseph Kamara (Statistician General, Sierra Leone) described the need to adapt the national accounts to meet the needs of developing countries and the need to build their capacity to compile national accounts - sending technical experts to them has failed.
41. Mr. Peter van de Ven (Statistics Netherlands) described how Statistics Netherlands was changing the way it compiled and presented the Dutch national accounts. The most notable changes were (i) a change in focus from annual to quarterly data, resulting in more timely annual data, (ii) greater use being made of data from administrative sources and less from surveys, and (iii) a reduction in the size of the supply and use tables. He then went on to discuss the difficulties that national statistical offices (NSOs) face in balancing the needs of users against data availability. He noted the substantial costs of improving and expanding the national accounts and argued for greater international cooperation in making developments and sharing software.
42. Given the importance of the national accounts and their dependence on a wide range of statistical data, Mr. van de Ven argued that it is imperative that the heads of NSOs should take a close interest in them. They should have a broad understanding of the national accounts and sanction the direction of future major developments. They should also ensure that they are made aware of the impact on the national accounts of changes to data sources.
43. The second discussant, Mr. Steven Keuning (ECB), supported the points made by Mr. van de Ven, but he believed that the number of industry categories in the supply and use tables could be reduced further and thereby achieve greater savings. He said that there was a need for close cooperation between national accountants and major users, including central banks. He argued that it was more cost-effective to improve the integration of existing data than conduct additional surveys, and strongly advocated the diffusion of the national accounting function to data supplying areas within NSOs.
44. The main points to come from the discussion that followed were:
- There was a need to address the concerns of sustainable development by augmenting the national accounts to take account of the impact on the environment of economic activity.
 - It was noted that the London Group had recently made substantial advances in this regard.
 - National accountants should play a role in development of other accounts, such as social accounts.

- There was a suggestion that the title *System of National Accounts* was no longer appropriate, and a more accurate and informative title would be *System of Macroeconomic Accounts*.
- Use should be made of “Wikis” to spread knowledge of national accounting.

45. In the concluding **session 6, Conclusions and recommendations for action**, chaired by Mr. Pronab Sen, Chief Statistician, Central Statistical Office, India, the session chairs summarised the main conclusions of each session and the meeting was wrapped up with general conclusions. As summarised in the paragraphs 6 to 17.