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Report on the UNSD/ESCAP Workshop on 1993 System of National Accounts Update

Bangkok, Thailand

19-22 April 2005

by

United Nations Statistics Division

1. The workshop was attended by national accountants from 22 countries and territories in the ESCAP region who are not members of the OECD or ECE: Afghanistan, Bangladesh, Bhutan, Cambodia, China, Fiji, Hong Kong; China, India, Indonesia, Islamic Republic of Iran, Laos, Macao; China, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Viet Nam. Indonesia, the Islamic Republic of Iran and Thailand sent both national accountants and statisticians from the Central Banks. Also represented at the workshop were representatives from the Asian Development Bank, ASEAN Secretariat, Statistical Institute for Asia and the Pacific (SIAP), and the Statistics Division of ESCAP. Resource persons included Mr Robert John Dippelsman (IMF), Mr Vetle Hvidsten (UNSD) and Mr Viet Vu (UNSD), in addition, Mr Pietro Gennari (UNESCAP) made presentations on the Informal Sector and the UNESCAP capacity building project in the Informal sector. Mr A. C. Kulshreshtha (SIAP), Mr Pietro Gennari (UNESCAP), Mr Joel Jere (UNESCAP), Mr Abuzar Asra (ADB) and Mr Agus Sutanto (ASEAN Secretariat) moderated sessions of the workshop. All presentations and other documents are on the workshop website at <http://www.unescap.org/stat/meet/sna-april2005/index.asp> .

2. In his opening statement, Mr Ilpo Survo, Officer-in-Charge, Statistics Division, UNESCAP, said that the workshop was another opportunity for the participating countries to ensure that their needs are reflected in the 1993 SNA Update and countries in the region would feel that they have been adequately consulted. More specifically, they were expected to inform UNSD whether the Advisory Expert Group on National Accounts (AEG) recommendations can be implemented in their countries and what would be their impact on the GDP estimates. He further stated that another objective of the workshop was that countries feel ownership of the updating process.

3. The workshop programme included presentations on the updating programme, the updating issues, the management of the project, operational guidelines for the AEG, the progress reports, the issues and decisions made by the AEG. After the presentation of each issue, the workshop was open for discussion and comments. The participants commented on all issues. Comments on technical areas that might require clearer recommendations from the AEG in order to deal with specific problems faced by developing countries are described later, after discussing the three issues on which countries have expressed strong opinions, namely the treatment of military weapons, capital services and the inclusion into the output of the government sector capital services from government-owned assets, and the informal sector.

4. Military weapons

- The participants agreed with the AEG that military weapons can, in general, be treated as fixed assets when they meet the conditions for being fixed assets.
- However, the participants unanimously found that national accountants in their countries are not provided with full and detailed information to allow them to separately identify:
 - Expenditures/types of military weapons systems that can be classified as fixed assets;
 - Expenditures/types of military weapons that are durable but only for single use that can be classified as inventories;
 - Other current expenditures.

5. Capital services and output of government

- A number of countries (China, Mongolia, Nepal, the Philippines, Singapore and Viet Nam) considered problematic the assumptions on rate of return, and service life of fixed assets when data are either non-existent or very weak in their countries. India mentioned that this will lead to general government having operating surplus, which is contrary to the present SNA treatment. China considered the introduction of capital services into the SNA as an unwelcome fundamental change in the SNA93. Singapore commented that capital services statistics could be important and useful inputs for productivity analysis. However, to ensure comparability, it is important that adequate methodological guidance be provided.
- The participants agreed that countries should be encouraged to calculate capital services particularly for fixed assets in satellite accounts for the purpose of productivity analysis.
- However, the participants unanimously found that it is not yet feasible to calculate capital services given that data on assets (fixed, produced, non-produced) are not complete and of good quality in most countries in the ESCAP region.
- Given the problem of data indicated above, as well as the lack of data on military weapon systems, the participants found that it is premature to include capital services of government-owned assets in the calculation of output of the general government sector.

6. Informal sector

- The participants proposed that a clear definition of the informal sector for national accounts purposes that is internationally accepted should be worked out to replace the current one in the SNA93 in order to promote international comparability.
- The participants encouraged the UNSD, ESCAP, the Delhi Group to work further on the proposal and circulate it to experts who have an interest in the subject for comments before preparing an AEG paper for the AEG meeting in 2006.
- India mentioned that it would be possible to compile accounts of informal sector, as a subset of household sector.

7. Non life insurance services

India bases its calculations of non life insurance services on the *1993 SNA* recommendation. However, they noted that many start-up companies have operating losses and erosion of

technical reserves. This is adjusted for in the calculation of services for the start-up years before the calculations are switched back to the normal method.

There were no objections to the preliminary AEG recommendations using adjusted claims and optionally adjusted premium supplements.

8. Employee stock options

India supported expensing ESOs as compensation of employees, but suggested using “other accounts receivables/payables” instead of derivatives.

Nepal asked how compensation of employees in real terms should be calculated when ESO expenses are included. Some countries suggested using the same indices as for the rest of the compensation of employees.

There were no objections to the AEG recommendations on ESOs.

9. Taxes on holding gains and losses

Several countries present at the workshop are able to separate taxes on holding gains from other taxes but there were no objections to the AEG recommendations.

10. Debt instruments indexed to a foreign currency

Most of the countries supported the AEG recommendations in order to avoid negative interest.

11. Interest on indexed-linked debt

There was general support for the AEG proposal.

12. Repurchase agreements

There were few comments on the issue.

13. Non performing loans

India noted that the choice between accrual and actual interest would affect the size of GDP. IMF commented that there would be no GDP effect if the loans in question had been granted to corporations as higher FISIM would be consumed by them as intermediate consumption.

Hong Kong noted that the recommended use of accrual interest instead of actual interest would affect the level of Hong Kong’s GDP, because Hong Kong would allocate FISIM into users/sectors in accordance with the 1993 SNA. It was desirable that clarifications and economic interpretations be given on the impacts of using accrual interest on major economic aggregates (e.g. gross operating surplus, saving) of the financial sector.

Nepal raised the question of how to define non-performing loans. Several countries responded that they use the 90 days rule and they are then normally extended.

Indonesia has the same opinion to use nominal valuation of loans. Indonesia applies 5 classification of loans based on how the debtors can meet the schedule of the nominal and interest payment of loans. The 3 types called NPLs are the loans which are classified as 'sub-standard', 'doubtful', and 'loss'. The high NPLs in Indonesia will create problems when implementing FISIM.

Thailand records actual interest paid and found that the accrual interest would distort the picture.

14. Employer retirement pension schemes

Among the countries present at the workshop 12 said that they had unfunded (government) retirement pension schemes versus 4 countries with funded schemes. India has two schemes; for new employees the scheme is funded. At least 2 countries (Cambodia and Thailand) have both funded and unfunded social security schemes.

Nepal found the recommendations for treating the employer retirement pension schemes complicated and that the calculations would have to be based on many assumptions.

India supported the preliminary recommendations, but rejected the use of practical guidelines for national accountants to estimate the pension liabilities as they found that actuaries should be the source of these calculations. In the case of India it is unclear whether the government would be able to provide such data. It suggested that data on pensions may be presented in satellite accounts.

Indonesia considered the solution lies with statisticians who prepare the GFS. National accountants will simply take their estimates and put them in national accounts.

15. FISIM

Mongolia supported using the cost approach for calculating the output of central banks. For other financial intermediaries they found that the choice of reference rate would be critical to the calculations.

India raised the question of whether the central bank activities should be split into two parts. The output of the Issue department could be calculated by costs while the output of the rest of the central bank could be calculated by the FISIM method. India pointed out that economic activity of money lenders are not part of the recommendation of the ILO and therefore are not measured in India.

Fiji also suggested the cost approach for the central bank. In their national accounts the FISIM is not allocated among users.

India uses accrued interest in their FISIM calculations.

Indonesia found it difficult to implement FISIM. For 1998 Indonesia's FISIM was negative when deposit rates were raised by the government while lending rates were already fixed at low rates under contracts. It supported using the cost approach for the central bank.

Singapore asked the FISIM task force to address the problem of negative FISIM. In Singapore, a significant number of financial institutions would consistently report negative output if calculated using the 1993 SNA margin approach.

On the question of including money lenders in the definition of financial corporations, Nepal reported significant activities by them in the country. However they are not included in the national accounts. Fiji has a large money lender sector, organized as clubs, which is not included in the FISIM calculations. Some countries noted that the loans granted by money lenders were mostly between households, or between households and unincorporated household enterprises.

16. Accrual principle to debt arrears

No significant comments on the issue.

17. Activation of guarantees

No significant comments on the issue.

18. Goods sent for processing

UNSD commented that the net treatment (recording only processing services provided by the good processor as export of services) is in line with the recording practice in business accounting. The net recording is similar to the recording of printer, who receives an order from a book publisher. Books are owned by the publisher, and thus are his output, not that of the printer. The printer produces printing services.

A number of countries/area (China, Hong Kong; China, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) found that the gross treatment is preferable as trade statistics are readily available and considered reliable. They cannot easily get data on processing services which come from enterprise statistics. Their current custom systems also do not differentiate goods for processing and other imported goods.

India said it would prefer to record goods on gross basis.

In the case of Singapore, data from processing services are available from establishment surveys. While the current customs system provides for the differentiation of goods for third-party processing, the nature of such trade makes it difficult to assess the reliability of the information reported by traders.

19. Ancillary units

Countries expressed their agreement to treat ancillary units as establishments for the compilation of regional domestic product.

20. Units, multi-territory activities

Agreed with the AEG.

21. Concept of residence and change of ownership

Agreed with the AEG.

22. Mineral exploration

Agreed with the AEG decisions. However, on one decision of the AEG in the summary: *“The group agreed that, in principle, payments by the extractor to the owner of the deposit are property income. However, when the owner is government and the payments are described as taxes, adhering to this principle introduces a discrepancy between taxes in the SNA and in government accounts. This needs further consideration.”* many countries agreed that these payments should be treated as property income, not taxes.

23. Data base and originals and copies

Agreed with the AEG.

24. Top-top structure of ISIC

On the newly proposed top-top structure of ISIC, Malaysia supported by Iran and other countries would like to have a separate heading for manufacturing, and did not agree that it should be only an “of which” since they consider manufacturing highly important in their economies.

India mentioned about the dropping of the category of households producing services for own consumption by employing domestic servants from the ISIC Rev. 4.0, when this item was introduced only in Rev. 3.0 and India is able to collect some data on number of domestic servants, under this category.

25. Issues raised by countries

India raised an issue on how to treat recurrent losses by public enterprises that happen year after year. Currently, India records them as negative operating surplus, which means that these losses are financed by capital injection from government. They believe that the annual capital injection to cover losses should be treated as subsidies. India asked for the opinion of the AEG. Indonesia said it had the same problem.